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ОБРАЗОВАТЕЛЬНАЯ ПРОГРАММА 2013/14

STRELKA

EDUCATION PROGRAMME 2013/14

Joint project by the Strelka Institute and the Faculty of Economics of MSU (named after M.V. Lomonosov)

СОВМЕСТНЫЙ ПРОЕКТ ИНСТИТУТА «СТРЕЛКА» И ЭКОНОМИЧЕСКОГО ФАКУЛЬТЕТА МГУ ИМ. М.В. ЛОМОНОСОВА

Links: Moscow's informal economy

СВЯЗИ: НЕФОРМАЛЬНАЯ ЭКОНОМИКА МОСКВЫ

Moscow’s Informal Economy

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Foreword

Citizens of Russian cities are riding in cars on busy streets, sitting in front of computers in offices, meeting with friends in cafes, buying various products online and in shops, raising children, making repairs, and watching television. All of these activities are familiar daily routines that describe the huge and complex world of the ordinary people, which until now has only been fractionally studied and poorly, reflected upon. In 2013/14, the topic "Urban Routines" was chosen by the Strelka Institute as its educational program.

What constitutes the everyday life of a city? How does our new reality relate to the past? And what changes can we expect in the future? Is it possible by investigating the structure of the ordinary, to form conclusions and undertake innovative projects based on these deductions?

These and other issues were the focus of five R&D study groups: *Dwelling, Offices, Cars, Retail* and *Links*. This publication presents the outcomes of the studio *Links*.

The electronic version of the publication and the work results of other studios are available at issuu.com/strelkainstitute

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Part I

Introduction: Moscow's informal economy

The Strelka Institute in partnership with undergraduates from the economic and geographical faculties of Moscow State University (MSU) conducted the research *Links* which has been studying the informal economy of Moscow, its spatial distribution and relationships with the formal sectors of the economy. The study group was originally set up by the Institute and Moscow State University (MSU) named after M.V. Lomonosov. In the study, undergraduates from the economic and geographical faculties were involved who were not previously trained at "Strelka".

Due to an increased interest in cities and urban development issues the subject of informality has acquired a new perception. The informal economy is noticeable in large cities in developing countries, where the boundary between formal and informal is the border between business districts and slums. It is pleasant to realize that Moscow is in this sense not such a city of contrasts. In Moscow and throughout Russia the share of the informal economy which has been interpreted as activities that are not reported in official statements, is between 20 and 45% of the GDP.

Over last 20 years the scale of informal employment, shadow economy, reciprocal exchanges, and the criminal sector, might have decreased but they continue to play a significant role in city life. Without taking them into consideration it is impossible to draw realistic conclusions about the state of the city, and plan its development. It is also important to understand why certain sectors are part of the shadow economy, for example, why 90% of private landlords pay no taxes. By understanding how this phenomenon has occurred it may be possible to convert the informal economy into a formal economy and give the city and its local authorities new resources for development.

In recent years the paradigm of the perception of informal economy has changed. In the past, elimination and formalization were considered the only possible options, today economists increasingly recognize that the informal economy to some extent is inevitable and in some forms of manifestations it is useful for the development of the formal economy. Therefore the study group *Links* has paid attention primarily to the harmonious coexistence of formality and informality in a city. However, they do not romanticise the informal economy, which in many cases is associated with crime, violence and coercion.

Links as mentioned previously is a study group involving the Strelka Institute and MSU. The Strelka Institute is a key body that specializes in urban issues. The issues were addressed from an economic and urban perspective as Strelka Institute students are trained in a multi-disciplinary methodology ESPAC (Economics, Sociology, Political sciences, Architecture, Culture) developed by the Strelka Institute, in which economic problems, especially from the energy sector or retail businesses are often the subjects for research study group and consulting projects. However, with regard to city issues, the architects and urban planner's opinions dominate this field. The Study group Links in the study has made use of economic approaches, econometric tools and some other methods characteristic to these sciences, economists are obviously experiencing a growing need for the development of a spatial view for the processes taking place. The members of the study group took, albeit in a shortened form, the course of urbanism, worked with foreign architects and geographers, went on field studies in the city, exploring and measuring what is happening in areas of concentration of informal sector activities, which included the transport system and city markets. In general, they were doing everything unusual to armchair researchers.

It would be naive to believe that after only two or three months of work it would be possible to give a total description of the informal economy in the metropolis and factors of its spatial distribution. This was not the goal that was strived for the research was seeking to raise questions and to conduct primary research on the topic. These articles uncover the necessity of considering the informal economy as a part of the overall economy, revealing the reasons of its vitality, its benefits and possible ways that it can be integrated into the economy and the environment of a city. The articles written by the study group researchers have considered: The phenomenon of the informal economy *sticking* to the transport infrastructure (Nikita Rumyantsev); The features and mechanisms of the

enormous informal market of apartment renting in Moscow (Eugene Chabanova); Informal construction (Lusine Arsenyan); Urban markets, in particular flea markets, as a kind of digest of different economic practices, including reciprocal exchange, and social and cultural phenomenon that are regarded of great importance for the city (Regina Magomedzagirova); Interaction and relative positions of legal taxis and *picker uppers* in the city (Carolina Skvortsov); An analysis of legal, economic and spatial sections of the two markets of *vicious* economy focusing on illegal casinos (Dmitry Surkov); and the sex industry (Alexandra Druzhinina) which include extremely daring conclusions.

Informality is a diverse subject. Leading experts in this field in particular, economists Vadim Radaev and Svetlana Barsukova, sociologist Alexey Levinson, other scientists and researchers, as well as citizens and those working in the informal sector have been of great assistance in understanding the intricacies of the subject. By communicating with these people it has been possible to understand informality from a different perspective, to look at the city not only as a financial vehicle, but as a living and valuable natural phenomenon.

Ronald Wall and Vasily Ausan

Chapter 1: Moscow Behind the Formality Facade

Ronald Wall and Vasily Ausan

The informal economy is a topic of interest which is attracting more and more attention from urban researchers. The relevance of this topic is primarily associated with attempts to comprehend what processes are taking place in megacities in the developing world where a considerable part of the citizens live not only dependent on an informal economy but also live in informal settlements, a life which is not supported by and is not under the control of the local authorities. This topic is also relevant for Moscow. Fortunately, the phenomena relevant to this sphere of relations in the capital city of Russia are not as noticeable as in African or South Asian cities. The role of the informal economy in Russia, and in Moscow in particular is estimated at between 20 and 45% of the GDP. Study of its laws, to what degree the informal markets are grounded in the society, as well as the spatial distribution and the impact on the city, is important to understand the trends leading to the future development of Moscow.

The project Links, which is presented in this publication, has been implemented in 2014, by the Strelka Institute, experts from the Institute for Housing and Urban Development Studies, Erasmus University Rotterdam and master students from the Faculty of Economics at the Moscow State University named after Lomonosov. It was an attempt to research the informal economy in Moscow from a spatial sectional point of view. It was too ambitious to try during this short and in essence educational project to form a comprehensive view of the informal economy, its relationship with the formal economy, and its impact on the city. Rather, it was important to look at the problem differently than from the opinion of a fastidious philistine or a professional campaigner for legalization. It was essential to ask questions as to the real extent of the different phenomena, and the effectiveness of various government measures. Equally important to the research was starting the exploration of Moscow's economy at the level of districts and individual areas, by building spatial relationships, being armed with the tools and techniques of economic theory, economic geography and econometrics. This kind of work is still very scarce, but it is clear that this is extremely important and a promising avenue for research.

Informality Awareness

Experts acknowledge that the informal economy is one of the most freely interpreted concepts of economics. Since the introduction of the term in the early 1970's the definition has changed dramatically. The most popular definition among modern scholars states that it is unobserved, and not recorded in official statistics or economic activity. In this project the informal economy has been considered as widely as possible. Two main areas of research have been proposed. The first one, so-called structural, analyzes all kinds of activities that lie outside the formal economy. Herein, following the majority of researchers, uncontrollable legal activity has been included as well as shadow activities (informal activities within formal organisations that, according to estimates made by V.V. Radaev, constitute the lion’s share of Russian informal economy), reciprocity economy (for instance, the economy of the gift, or home economy), and criminal sectors of the economy.

There is also an institutional approach to the understanding of the informal economy, in which informal rules are considered to be a part of any formal institution. One of the most complex and interesting questions here is in what degree do the informal rules support the formal ones? or do they interfere with them? and if so to what extent? or do they contradict them? In the case of corrupt authorities, the organization itself, the institution changes its nature and transforms into a completely different role. Does informal economy have to be struggled against? Until recently, many economists and politicians were convinced of the positive answer to this question. The authors of most of the studies regarding informal economy treated it as a problem, focusing on the ways to *formalise* the problem. This approach is intuitively clear, because if an economy experiences market failures (information asymmetry, monopolization, discrimination), state intervention usually follows. Authorities, however, can only intervene in; what is observable, can be evaluated and is under their control. In the informal economy this is not the case, which explains the prevalence of ideas about legalization.

Today however, a more differentiated view of the problem is becoming increasingly popular. Firstly, there are obvious cases in which there is no failure in the informal economy, for example home economies, its legalization and increased regulation only raises the costs to society. Secondly, in the past the idea of informal economy was accepted as an integral part of the formal economy. Moreover, it is not obvious how they in general can be regarded as two different phenomena. It is implicit in the framework of the institutional approach to informality as is also true for the structural approach to informality. Thus, on a global scale informal workers are often built into formal value chains as suppliers of goods and services. There are contradictory examples, when the informal economic agents are embedded into the chains from the marketing and sales sector. An American journalist and researcher of the informal economy in developing countries Robert Neuwirth mentions that in global companies 20% of revenues are provided by street vendors. He also notes that global brands in reality are ambivalent to the market of counterfeit products because, with all its disadvantages, counterfeiting serves as a powerful marketing tool, accustoming the market to the brands, and providing the information about consumer preferences "*If our products are not being counterfeited, it means that something is wrong with them*" say managers of major global brands, when they are not in public.

Thirdly, the informal economy is often a kind of safety net for the community, giving people the opportunity to earn in difficult times and be able to feed themselves. Informal employment is a way of earning for fully legal workers, and a lot of examples can be seen in Moscow, where, for example, university professors work part time as private tutors. This phenomenon is not exclusive to developing countries. There is data showing that 15% of the GDP in advanced economies is provided by the informal sector. In developing countries this proportion can vary from 60- 80%. At the same time, it is estimated that up to two-thirds of the income of the informal economy is being spent in the formal economy.

Informality Lenses

Thus, today the issue is seen not so much in the total eradication of informality and *whitewashing* of anything and everything but in finding a balance, a combination in which the formal and the informal economy can coexist and complement one another. That is the position that was chosen as the starting point of this work. One of the challenges of this research was to take an objective, if not a positive point of view of the informal economy, and to move away from the standard to the positive one, not prescribing anything to a particular sector of the economy a priori. At the same time, it was important not to romanticise or embellish the inevitable imperfections of the sector, such as negative externalities for other economic actors, crime, violence, and so on.

What were the features of this studies approach to the informal economy how was the phenomenon look at? and what could be attributed to the most interesting observations?

Firstly, an informal economy is never chaotic; it is a subject to the laws and logic of economic activity. In the example of an informal taxi service it seems that there are two models: a model of pure competition, related to the individual *picker-uppers*, and a model of monopoly, which concerns taxi drivers that control the most profitable routes, such as ones connecting the airports and the city center.

Secondly, as we have already mentioned, the informal economy is a key stabilizer of the economy as a whole, which enables people to survive when the formal economy fails. Vadim Radaev, economist and sociologist, Russia's leading expert on the informal economy, has given an analogy with the grass that germinates after a roller has driven over it. For example, with the collapse of the Soviet economy and in particular the decline in agricultural production, millions of people started subsisting on vegetables by growing them in their personal vegetable gardens. People from regions with high unemployment levels moved to large cities to look for jobs as cab drivers, unskilled construction workers, babysitters or cleaners.

Thirdly, the informal economy is very flexible and competitive. It surfaces where for some reason the formal economy does not work. The same *picker uppers* are in demand in these places, where there is a lack of public transport services or where it is difficult to use legal taxis. Another example of this flexibility in Russia are old women who try and sell cakes and cucumbers to passengers on long-distance trains at railway stations.

Fourth, the informal economy serves as an indicator of regulatory, commercial or social failures. Emergence of corruption in various activities points to a possible inefficiency and intricacy of processes, a large informal employment indicates the lack of jobs or excessive government regulation on labour relations, and tax evasion accentuates the problems in the administration or incorrect incentives. Studies show that the extent of the informal economy is directly associated with the level of administrative barriers: according to the analysis made by Schneider and Enste, an increase in the intensity of state regulation at one point leads to a ten percent growth of the informal economy.

Fifth, some of the components of the informal economy are ineradicable, for example, those which, in unscientific words, are based on human vices, for instance, it can be related to the sex industry. It is unlikely that there are examples of countries with even the most stringent regime, where this phenomenon does not exist. At the same time, there are countries where this sector is legalized and controlled. Incidentally, the Russian Empire once was one of those countries. The practice shows that transition of such industries beyond the law borders (as recently as in 2009, we witnessed banning of casino activities in Russian cities) means not so much the termination of their existence, but moving them into a shadow and transferring the control over these activities to other groups. The question of how to regulate such industries properly is not so easy to solve and its solution contains a number of considerations, including ones of a moral nature. It is important to consider all the pros and cons of the current situation and possible scenarios, so as not to give the unambiguous recommendations as a result.

Finally, it is important to realize that the informal economy contains a significant positive social and cultural potential. This is primarily a social activity, the types of interactions that make up the culture of a city and form trust. In fact, it is important to think about the city, not only as an economic machine, but as a place for living, communication, self-realization and immersion into culture. What role does informality play here? Should we strive to create a perfect and sterile city? Can we say that city needs, in socio-economic and cultural terms, a certain amount of informality according to A.G. Levinson as *beneficial bacteria* or according to A. V. Chayanov as a *social profitability* factor?

Informal Economy Map

Deciding what range of topics should be included in the research first involved considering different interpretations of the informal economy, by which economics has been enriched in recent decades, and looking at the elements of the city and urban life, and illustrating with these elements including certain displays of the informal economy.

In such a way, several groups of subjects have emerged. One of them is related to the emergence of informal economy in urban space. In particular, it concerns the laws governing the distribution of informal types of economic activity in a city in accordance with the socio-economic indicators of areas and specifically related to the organization of infrastructure (N. Rumiantsev), and the impact of practices of various industries (primarily the construction industry) on the city's appearance, location, functionality and architectural objects within the city (L. Arsenian). A separate issue that was addressed is the *unreported economic activity*, which cannot precisely be localized, for example, renting apartments without paying taxes (E. Chabanova) or illegal taxis (K. Skvortsova). There are a range of topics related to the migrant economy and specifically about economic and social relations in a certain ethnic environment. The other topics are related to self-employment in a city and the assessment of this market. A perspective on the phenomenon of informality would be incomplete without considering the market as a kind of catalogue of various social economic practices (including reciprocal exchanges) and the touristic attractiveness factor (R. Magomedzagirova). Finally, there are issues related to the criminal sectors, especially those of them which in different historical periods were sometime classified as legal and sometimes as illegal. In this case it primarily concerns gambling (D. Sourkov) and the sex industry (A. Druzhinina).

We have not had the opportunity to cover the whole range of problems mentioned above; however, the topics that have not been the subject of our study at present, will be interesting for further studies. Taking into account the magnitude of the shadow economy it seems to be a promising and important phenomenon. The study of informal employment (including a variety of services, which are used by millions of Muscovites, including apartments' refurbishment, child care, housekeeping, tutoring etc.)

can provide interesting information about the real geography of employment in the capital, flows of people, and demand specifics in the city. Analysis of the spatial distribution and characteristics of the migrant and ethnic economy containing a substantial component of informality will also be able to provide the researches with useful information in the management and planning of cities. Emergence of ghettos or preventing their formation is an extremely important issue for the majority of megacities, and Moscow is not an exception. When considering *the city informal economy's infrastructure*, including financial flows, decision-making centres, and informal institutions many interesting conclusions can be drawn. In circumstances when the city is concerned with the creation of alternative employment centres, traditional offices for various reasons lose their appeal, thus analysis of the real but not yet recorded characteristics of employment and decision-making centres can give valuable information for developers, planners, and economic authorities.

Research and Outcomes

The nature of the study was not typical for economists. As many as possible spatial factors were also taken into account. Using GIS-modelling, econometric analysis and field studies, localization of different types of informal economy, its sectors and indicators of informal activity presence on the city map were studied, and these activities were also linked to the formal businesses and formal indicators. It should be mentioned that capabilities of econometric tools with the limited spectrum of available statistical data regarding the city, especially the informal economy was limited. Due to this qualitative analysis methods were used, which led to a certain narrowing of the subject area and in turn complicated the research. In addition, the work analysis was conducted the regional level and no further than the level of site development morphology. And this, according to urbanist Alexei Muratov, could also be a limiting factor when explaining the localization of certain informality activities in the city. For example, underground casinos and brothels are increasingly gravitated to areas where it is impossible to place a concierge in doorways. There are specific architectural and spatial features of certain sites that contribute to the formation of informality (e.g., expansions or niches in underground passages).

Nevertheless, a number of observations made are worthy of attention. After analyzing the relationship of the informal economy and transport infrastructure, some patterns were found in the distribution of informal activities on the city map. One of the hypotheses was that the informality as a whole will continue to grow from the center to the periphery, which is explained both by the ability of authorities to control the territories, and real estate prices and the prestigious nature of some areas. The study showed that there are indeed types of informal activity, the scope and intensity of which increases in the suburbs or are located in areas where the population has a relatively low income. These include various sorts of informal trade, informal taxi services, and unauthorized construction. However, a *premium* informal sector was also observed, which is closer to areas with high living standards and low numbers of migrants and mainly localized in the city center. This part of the informal sector includes prostitution and illegal casinos. These kinds of businesses, as it has been shown by test surveys during the course of social studies, though being illegal in origin are relatively tolerated by Muscovites. It also seems that there exists a relationship between types and extent of the transport infrastructure and types of informal economy. In other words, during the transport infrastructure expansion, such as the metro lines construction, one can expect to find a strengthening and redistribution of some types of informal activity networks, and during the construction of the light transport lines – other types.

What methods to influence the informal economy can be considered effective? There is an assumption (or rather, a hypothesis) that power methods to combat the informal economy are rather expensive and thus have a limited effect. This applies to activities such as traders displacing from forecourts by the police, inspections of apartments to identify tax evaders having rental incomes, fines from illegal taxis, and casinos prohibition. Certainly, these measures have the right to exist, but they would be truly effective only in combination with measures that would create incentives to change their economic behaviour. In other words, if one wishes to make people pay taxes on rent, a mechanism is necessary to be introduced that will guarantee them respect and protection to their contractual obligations. To stop people using illegal taxis it is necessary to provide convenient public transportation and give real advantages (e.g., dedicated lanes) to conventional taxis.

In Moscow, due to the uncertainty of regulation this contributes de facto to the existence of the informal economy and shadow turnovers and therefore disputable urban planning decisions. For instance, an international legal analysis conducted by A. Druzhinina showed that the penalties for prostitution in Russia are much milder than in many other countries. Absence of a series of rules governing urban planning in Moscow creates opportunities and incentives for shadow schemes, some of which are triggered by the authorities and others by business. This uncertainty also has spatial manifestations: objects emerge in the city that are not taken into account or are making the traffic situation more disruptive, are degrading the environment, and causing social unrest.

Finally, it is important to take into account cultural characteristics of the society or thereof the city under consideration when analysing informal economy. For example, as cleverly points S. Y. Barsukova, proposals often made by traffic rules offenders to the road inspectors to: *resolve the issue in a human way*, largely refers to a mental opposition to the system, formally, as something inhuman. This is a typical problem for countries beginning to catch up with development, where formal rules do not arise as a product of evolution of informal ones but are imposed from the top. Reciprocal exchanges of gifts, the opportunity to bargain at the market or going by car without relying on the meter, they are all important parts that make up the culture of a city and a country; if one wishes to eliminate these things, it might create a risk of loss of important social and economic characteristics, and identity. If the markets were removed from Istanbul or Cairo and replaced by shopping centres, it will no longer be Istanbul or Cairo.

Antibiotics or Training?

The project *Links* became only the first approach to solving these problems, and does not claim to give comprehensive answers. At the same time, in the course of the project outlines for future work, and perhaps the city's new policy on the informal economy has been outlined.

It is necessary to consider the fact that urban economy is multi-sectorial and beneficial. It is also true of business formalities to varying degrees. Reduced diversity places the stability of the city as an economic and social organism at risk. However, this does not mean uncontrolled development; on the contrary, a city needs to carefully study the various manifestations of informality, assess their scale, externalities, and long-term impact.

It is obvious that turning a blind eye to the informal economy is counterproductive, and sometimes dangerous, as it stimulates the criminalization of these sectors and relationships, and does not bring economic benefits to the city, undermining the social situation.

Interesting challenges are posed by sectors such as gambling and the sex industry. Being criminalized in various countries and in others they are to some extent legal, but throughout the world in varying degrees they certainly exist. Issues of relationships, regulation, legalization or criminalization of such industries are far from being simple. However, a variety of factors should be considered, including humanistic ones, for example, the rights and livelihoods of sex workers. If it is impossible to combat prostitution, does that mean that we should pretend that it does not exist?

An important point for urban policy is to consider the specifics of localization of various types of informal economy, depending on transport infrastructure layout, socio-economic factors, morphology, etc. Without considering these factors, city development is capable of inadvertently reinforcing certain manifestations of informality. In this respect, it is necessary for a city to have a box of tools to work with the informal economy, in which the traditional methods of force do not prevail. In this way it is possible to stimulate legitimate businesses (for example as already mentioned, dedicated lanes for legitimate taxis) or, following the example of European countries, to allocate special zones for informal or socially conflicting activities , whether it is forecourt trades or casinos, and to establish firm agreements with economic agents. Standard measures are necessary to improve administrative procedures and increase transparency, which in itself will exclude the possibility of a shadow turnover.

Finally, the types of informality which would contribute to the strengthening of productive social relationships, trust, and mutual support, can and should be supported. It is no secret that flea markets in various countries are not only a magnet for tourists, but also an important way to support certain

social groups, a place of urban culture, social relationships, and open communication. Without such places a city becomes lifeless, and people no longer feel that they are genuine city dwellers.

Nikita Rumyantsev participated in preparation of this article.

Chapter 2: Stickiness effect: Informal economy and urban transport infrastructure

Nikita Rumyantsev

Informal economic activity is found to be clustered by the city's transportation infrastructure facilities. Econometric estimation and mapping has not only proved this hypothesis but has also demonstrated how different types of informal businesses are distributed between the *heavy* and *light* facility objects of the transportation infrastructure. The impacts of transport development programs on the informal economy have also been studied prioritising the changes in the development of the transportation system. The city has been faced with the necessity to take into account the risks of increasing volumes of certain informal economic activities depending on the development of the transportation infrastructure, and it is important when dealing with these risks to learn how to use not only economic but also architectural and town-planning techniques.

Existing transportation infrastructure largely determines location and characteristics of various economic activities in a city. Business districts location and conglomeration of firms in clusters is caused largely by an existing transportation framework. However, when considering the relationships between transportation infrastructure and urban economy, it is necessary to take into account that different types of urban transport infrastructure have different effects on economic development. In the case of the informal economy, as well as formal one, transportation infrastructure plays a key role in determining its scale, location and intensity. However, informal economy has a number of other ties with transportation infrastructure.

The study of the relationship between transportation infrastructure and the informal economy throughout a city is a nontrivial task that lies at the intersection of urbanistics, transport science and the economics science itself. A description of such relationships remains outside their methodological lenses and a reasoning system regarding various practical solutions. Such interdisciplinary interaction necessitates the use of specific methods and approaches to the study of some areas in other disciplines, resulting in a change in the field of application solutions for specific situations. Examination of the informal economy and transportation linkages is also interesting due to the changes in the transportation systems development policies in many cities in the world (and in particular, in Moscow). Urban transport system priorities are gradually shifting from private cars to public transport. Increasingly, various city governments are introducing additional constraints for car ownership and increasing the availability and convenience of public transport.

Choice of public transport as a priority form of transportation leads to an increase in passenger traffic and to the development of transport infrastructure, which may affect the location and intensity of informal economic activity employing the elements of infrastructure as the basis of its activities. Given that each form of transport infrastructure is associated with certain types of informal economic activity, the study and exploration of them is particularly relevant to the problems of urban planning.

This topic becomes of particular importance when studying the features of these interlinkages in Moscow, primarily due to a significant lack of research on the economy of the capital city. The choice of Moscow as a city under exploration introduces a number of difficulties and brings about some methodological and theoretical issues. Due to the fact that Moscow belongs to post-Soviet cities, most of the economic models developed in the framework of the new economic geography cannot be adequately applied. However, Moscow is the capital city, and a highly centralized capital city. The effect of being the capital is an interesting one and has not been fully explored yet.

In this article we have tried to answer two questions concerning the relationship of the informal economy and the existing transport infrastructure:

- What is the impact of an existing transportation system on the distribution of the informal economy in Moscow?
- What is the relationship between the types of transport infrastructure and locations of various types of informal economic activity?

It should be noted that various types of economic activities, which are strictly informal and are not shadow were studied. In other words, examples of informal activities like restaurants gaining a part of their revenues as unreported receipts or factories that produce their goods without a license have not been considered.

It is understandable that, like the formal economy, the informal sector needs access to consumers, which are carried via a transportation system. Activities location in proximity to or within the elements of a transport infrastructure is necessary in order to attract customers. Although informal economy does not usually have access to broad possibilities of advertising, such as the media.

However, in the case of the informal economy, the transport system can also act as a platform for performing economic activity. In particular, transport infrastructure can provide special conditions for the production of goods and services, as well as reduce the costs. For instance, informal traders use underpasses as shopping areas to protect themselves from bad weather and areas near metro stations and train stations may be used by informal taxis as car parks.

In most of the cases, transport infrastructure is functioning in the open access mode when none of the economic agents have exclusive rights in respect to it. Thus neither local authorities nor private individuals are able to fully control the access to a particular object.

Another feature of the informal economy is that in contrast to the formal economic activity, informal activities do not compensate for the increased load on the elements of the transport infrastructure. For example, each metro passenger pays for a ticket and shops in the underground passages, pays rent and taxes; a part of these funds are spent on infrastructure maintenance. The informal sector agents either do not reimburse the increased burden on the transport infrastructure or only partially reimburse it. A closer look can be taken at it by analyzing a transport infrastructure in terms of the typology of economic goods. In this way, transport infrastructure is a common good, which is characterized by the absence of exclusiveness in access to merchandise. Thus, any economic agent has access to it and by the presence of competition in its consumption, like when its consumption or utilisation leads to a decrease in its amount. Such merchandises are characterized by their over-consumption or by the struggle of individual groups for control of access to that particular commodity. Merging agents into groups in order to establish control over access to an infrastructure element is not always possible: for example, interests of individual agents may vary or the control over an element itself carries prohibitive costs.

In the case of such a relationship like the coexistence between the informal economy and transport infrastructure, there are strong incentives for economic agents to use infrastructure, without compensating for the increased workload, which not only leads to the degradation of infrastructure elements, but also to the emergence of external effects on economic agents which are located nearby. For example, in passages artists can start working or music bands can start playing, which can attract more visitors to the nearby restaurants and cafes. However, it is possible that passages or forecourts turn into informal markets, not only changing the urban space but also preventing certain types of businesses to locate nearby, or a cafe will not make a terrace, or an expensive shop will not be able to operate in that area. There are also increased risks arising from illegal economic activities, which include fire and sanitation risks.

Such a situation leads to the emergence of the following three possible situations:

The transport infrastructure element becomes overused by informal economic activity, when agents are heterogeneous and there is no possibility to restrict usage of this facility or access to a nearby territory.

Infrastructure facilities become encaptured by one of the groups of informal economic activity, when economic agents are homogeneous and there is an opportunity to collaborate and restrict access to the element of transport infrastructure for other agents with the purpose of its commercial usage (collaboration is possible based on an affiliation with the industry sector, such as taxis). In such a situation prices of casual goods or services offered by informal businesses increase while their volumes decrease.

Decisions are adopted by the official supervisory authority regarding facility protection from misuse or from usage without any compensation for its utilisation. It is usually associated with increased cost related to object control and supervision, and to releasing the object from the informal economic activity that results in substantial cost increases.

Informal economic activity usually arise where there is a demand for it, or where the formal economy cannot function. Thus, the last option regarding the object protection from informal economic activity can lead to a reduction in the consumers' welfare.

The process described above regarding the informal economic activity clustering around and within the transport infrastructure elements will be referred to in this study as the *stickiness effect*.

Two sorts of empirical verification have been used to verify this effect namely, field studies and econometric testing.

Econometric testing

Econometric verification involves analyzing and the verification of connections between different types of transport infrastructure and different types of informal economic activity. In order to verify the hypothesis, the estimation was tested using a standard regression analysis of the 125 districts within Moscow. Within the models, the relationships between different transport infrastructure elements and various kinds of informal economic activity was tested. The following elements of transport infrastructure were considered; metro stations, pedestrian underpasses, intersections of roads, car parks, trams and buses, as well as two elements of urban infrastructure, namely public facilities and temporary events such as festivals or fairs. Information as current as of 2014 was obtained from open data sources on the website of Moscow city. As forms of informal economic activity, informal taxis were used, informal markets (which included flea markets), unauthorized spot construction, and supply and demand of prostitution. Methods of informal economic activities evaluation have been included in other chapters of this book in more detail, but in general, the gathering and quality assessment has been carried out by utilising existing open sources of information, such as websites of nonprofit organizations and media sites, as well as by using expert evaluation methods and analysis of queries in web search engines.

Table 1: The relationship between different types of informal economic activity and various forms of transport infrastructure in Moscow in 2014

	Flea markets	**Informal markets**	**Spot construction**	**Informal unauthorized construction**	**Illegal taxis**	**Prostitution, supply**	**Prostitution, demand**
Car Parking areas	0.02						
Underground passages						34.23	
Pedestrian crossings			0.01				
Subway entrances				0.57	0.57	17.93	65.04
Tram stops	0.01	0.02		0.07			
Bus stops		0.02		0.04			7.10
Public facilities	0.08						

From the results presented above, it is obvious that there is a separation of informal types of economic activity focused on light transport infrastructure and on heavy transport infrastructure. The activities oriented towards light transport infrastructure can be attributed to informal markets, including flea markets, and unauthorized construction. Activities oriented towards heavy transport infrastructure embrace prostitution and informal taxis. Empty cells mean that there are no considerable

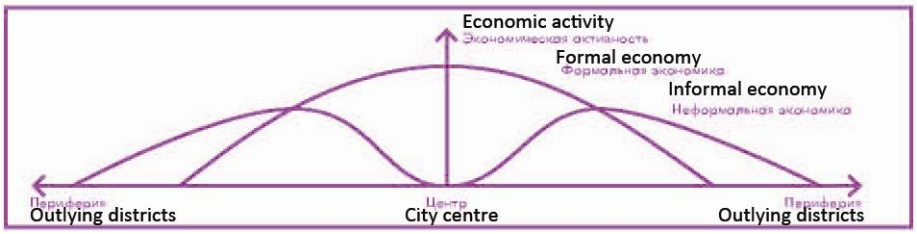
interdependencies. However, it is evident that this separation is not strict; there are various types of informal economic activity that correlate with different types of transport infrastructure. For example, prostitution supply depends on pedestrian underpasses, and unauthorized construction depends on bus and tram stops, and subway stations. It can be concluded that these types of informal economic activities depend on different kinds of transport infrastructure, and the impact of each kind of transport infrastructure has a different effect.

The analysis that was conducted has its obvious limitations and drawbacks. Firstly, there is imperfection in the data reflecting the situation at a district level rather than at a more detailed level. Secondly, the analysis did not include the study of intercity platforms and railway transport in Moscow in general, which are also acute centers of informal economic activity sticking.

Fieldwork

The next step in the hypothesis testing of the informal economy stickiness effect was conducting fieldwork. The hypothesis was about the positive influence of the distance from the city center on the overall informal economy rate. However, it is obvious that this is the case only for certain types of informal economic activity. There also exist various types of informal business activities which are negatively related to the distance from the center or do not have a relationship. In the study those types of informal economic activities were also explored, and it was concluded that they are increasingly dependent on transport infrastructure and the distance from the city center. The *street* informal economic activities, as it has been previously noted, include among others informal taxis, informal trade, informal advertising, begging and street musicians.

Figure 1: Dependence of street types of informal businesses and the informal economy on the distance from the centre

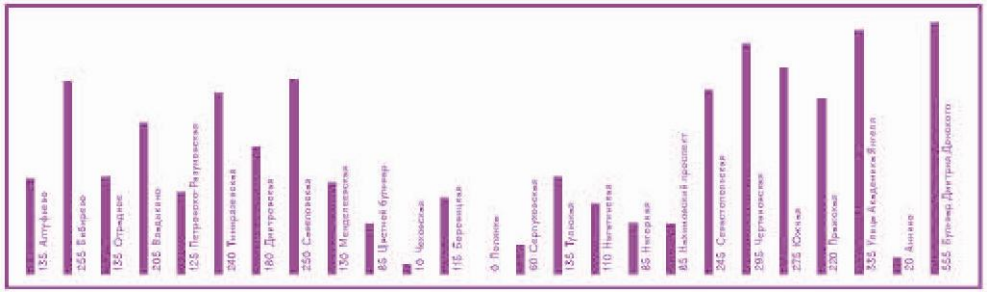


Source: The Strelka Institute, Analysis by Studio Links

During the fieldwork various kinds of informal economic activity were observed at each of the exits of every subway station and the adjacent territory (about 50 meters), as well as in all the pedestrian tunnels of the 25 subway stations of the Serpukhovsko-Timiryazevskaya line.

For the study a protocol was developed, containing five sections of the informal economy scope estimations, namely: informal advertising, informal trade, begging, informal taxis and other informal economy (for more information about assessment techniques see Annex 1). After the exploration, the resulting values for each informal activity were converted into overall coefficients of the informal economy (see the criteria in Annex 1).

Figure 2: Overall importance of the informal economy along the Serpukhovsko-Timiryazevskaya line of the Moscow metro based on the results of field research



Source: The Strelka Institute, Analysis by Studio Links

As can be seen from the graph, the hypothesis about the distribution of the informal economy in Moscow has been confirmed. However, the informality rate has proved to be much lower than it was originally anticipated. In the city center the aggregate rate of the informal economy in the sectors under exploration appears to be lower than at the periphery. A rise in the informal economy rate with the increase of distance from the center does not take place; the only area where a significant increase is observed is the Moscow Ring Road. A decline in the informal economy rate in the area nearby metro station Annino could be explained by the specific nature of its location and architecture.

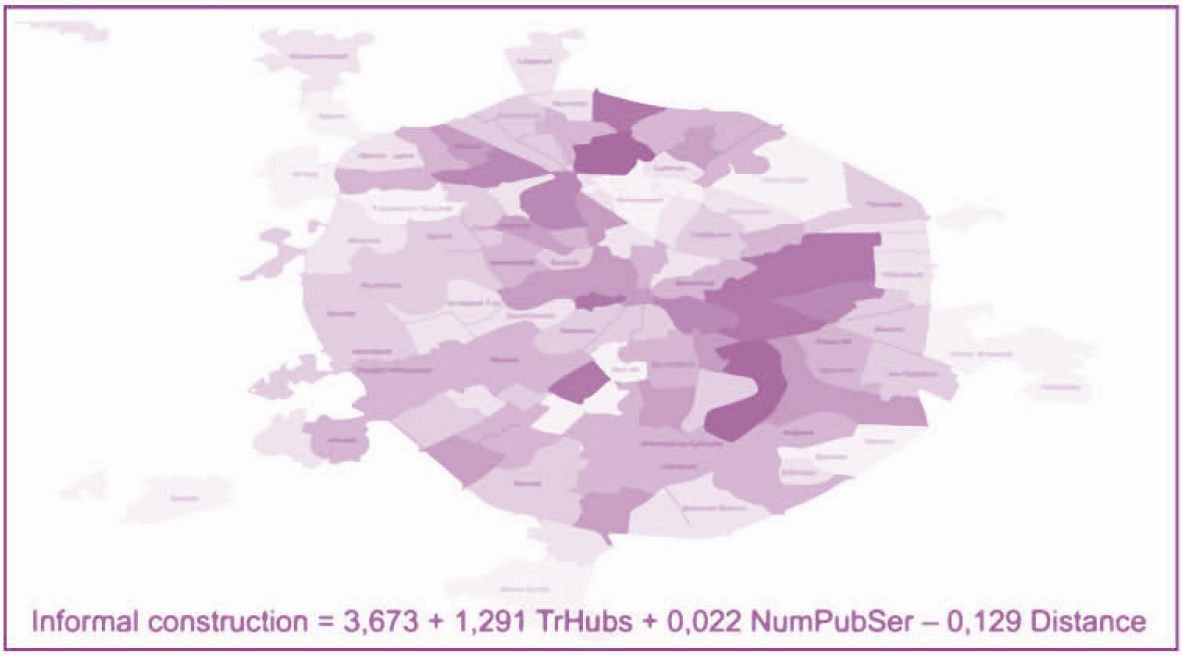
Differences between the city center and the periphery do exist. However, they are not crucial, and because of the low volume of informal economy, a difference between some stations is notable. It was eminent in the study that only informal taxis show the potential over-usage of transport infrastructure, occupying the territory adjacent to the infrastructure elements.

Sticking at the city level

The last aspect under study in the informal economy and transport infrastructure interlinkages was considering the stickiness effect at the level of the city as a whole. Informal economic activities can use transport infrastructure facilities not only at the level of a single infrastructure element, but also at the level of the whole city. For instance, informal construction uses major highways, transport hubs, and already investigated heavy transport modes.

It should be noted that the existing concept of informal construction does not accurately reflect the real situation in this field. Due to the complexity of regulation of this industry and inconsistency of special conditions in construction regulations with existing practices it is extremely difficult to uniquely identify a particular building as being informal. However, for the purposes of the study, location of unauthorized construction in Moscow was analyzed. This type of construction to the greatest extent can be attributed to non-formal, as it occurs without any reporting to local authorities and without registration. To do this, a regression analysis of 125 Moscow districts was conducted, but as regressors; existing transportation hubs, a distance from the center, and the number of public service institutions were also taken into account. The data was taken from the website of Moscow's open data. The data on unauthorized construction was taken from the website Electronic Moscow.

Figure 3: The results of the mapping of unauthorized construction and evaluation of econometric models in districts of Moscow



Source: The Strelka Institute, Analysis by Studio Links

Unauthorized construction depends positively on the availability of transport hubs in the district and the number of public service institutions, and negatively on the distance from the city center. It can be concluded that it is largely correlated with existing transport and urban infrastructure. In addition, a statement about the differential impact of the distance from the city center on the different types of economic activity is confirmed and is illustrated by the analysis. This implies that the stickiness effect exists also at the level of a city as a whole.

The research has its serious limitations. Firstly, is the ambiguity in the results, since the distance from the city center is a kind of a proxy variable to the price of real estate. Secondly, as it can be seen from the map, unauthorized construction is localized in the north-east of the city, in areas that are less prestigious and less densely built-up, which could significantly explain the results.

With the development of transport infrastructure additional effects in the informal economy may occur. The situation in the suburbs can be given as an example, since during the last years these are becoming more intensely included in the Moscow transportation system through the construction of new roads and creation of transportation hubs. The expansion of Moscow's transport infrastructure increases the risks of formation of informal economic activity clusters in these cities for the above reasons.

Conclusions and recommendations

In conclusion, some general recommendations are presented, which are important to take into account when expanding the urban transport infrastructure and overcoming problems entailed by the stickiness effect.

First of all, one should be aware that development and expansion of every element of the public transportation system leads to changes in economic incentives in both the formal and informal sectors of the economy, which in turn can lead to increased costs and risks in urban infrastructure development. Incorporation of new users or changes in priorities can affect the incentives of economic agents across a transport system. Incorporation of new users or change in priorities can affect the incentives of economic agents across the transport system.

There are many ways to overcome the stickiness effect, one of which is intense and direct state control over the whole transport infrastructure system. However, this method of preventing the transport infrastructure exploitation by informal economic activities is rather costly; at the same time, there are risks of unfair implementation of this mandate by bodies in power.

However, there is a way to avoid transport infrastructure over-usage by replacing the mode of open access to its elements with other modes of ownership. This transition can be carried out being guided by the well-known rules of Posner, which describe a procedure for resolving conflicts over ownership of a particular object.

Based on the stated logic, it is advisable to transfer ownership of the transport infrastructure facility or its individual elements or nearby territory to:

- Firstly, those who are able to control access to it without discriminating the users of this type of public transport.
- Secondly, those who will be able to make use of it most efficiently from an economic point of view and with the least social costs.
- Thirdly, those whose costs in correcting errors in initial property rights distribution will be the lowest.

A solution to this kind of problem cannot be exclusively economic by nature. There are methods, belonging to the field of urbanistics, urban planning and architecture. It is possible to create individual localized spaces in a city specially allotted for informal economic activity. These spaces will not only allow cost reduction in monitoring and prevention of risks associated with informal economy clustering but may also become a factor of increasing a city's attractiveness.

Searching for solutions in the field of architecture and design is also possible, and even necessary, as attractiveness of urban space for both formal and informal economic activities depends on spatial and architectural solutions.

Chapter 3: Warranty issues: Informal market of housing rental in Moscow

Yevgeniya Chabanova

How does Moscow's informal market of housing rental function? and what is the behavior of the major players on it? What are the factors of urban environment affecting the rent prices in different areas? The study has attempted to answer these and other questions. In particular, rough estimates of the market capacity of informal housing lease made it possible to determine *the informality cost* which is the volume of the non-receipts in the budget of the capital city. Today, according to various estimates, about 90% of the leased apartments in Moscow are being leased without payment of a tax, and the city loses about 30 billion Roubles per year. Several proposals for the market *formalization* were formulated in this study namely to direct taxes collected from the apartment owners on improvement of the located nearby urban environment; to create a housing court as an institution for resolving conflicts between apartment owners and tenants; and to implement realistic agreements between landlords and tenants.

In Moscow, the average price per square meter of housing currently is 170 thousand Roubles, a need for housing is often implemented by means of rent. According to the city Department of Statistics, the number of apartments in Moscow in 2011 was 3.877 billion, i.e. almost 4 million units. About 10% of housing is being leased. Thus, the volume of supply on the housing rental market is about 400 thousand apartments. According to the head of the Department of Economic Policy and Development of Moscow Maxim Reshetnikov, in 2013 in Moscow only 23.5 thousand landlords rented out their apartments in a legal way. The volume of the shadow market of residential real estate rental in Moscow is more than 90% of the total market volume.

Illegal rental market is attracting increased attention of the city authorities. According to the Department of Economic Policy and Development of Moscow, the dynamics of tax revenues to the city budget due to tax on personal income received from the lease of residential premises, is characterized by an incredible growth. If in 2011, the amount of taxes collected accounted for 150 million Roubles, in 2013 it amounted already to 700 million Roubles. The plan for 2014 is 1 billion Roubles. In the context of changes in the structure of the city budget revenues municipal authorities are increasingly focused on this source of income. Starting from 2013, tax revenues received from individuals exceeded the revenues from profits tax. This trend is very surprising and is atypical for the city budget.

Informality and opacity of housing rental market in Moscow and at the same time, the growth of interest to it by the regulators with the purpose of its formalization cause increasing interest in this subject matter. The objective of this study is an analysis of trends in the formal and informal renting market and to make recommendations to improve the living conditions of the population and the appearance of the city.

Landlords and tenants: Who are they?

The housing rental market is multi-faceted, depending on the type of tenants and landlords. The authors of the study of housing rental markets in developing countries initiated by the World Bank, Ira Peppercorn and Cloud Teyffin distinguish the following types of landlords:

- Individual property owners
- Institutional investors
- Uncommercial social housing providers

Landlords of the first type tend to be the largest and at the same time quite a heterogeneous group. However, despite this, they share some common features:

- They need the security and warranties in fulfillment of obligations by tenants
- Rental income significantly increases turnover of funds and makes a significant contribution to the living standards of a landlord

- They probably do not rely on the rate of profitability on investment; a rental income for them, in the long term, is a guarantee of their financial stability

Tenants are divided according to the authors of the study into 2 categories: Tenants by constraint and tenants by choice. The first category embraces squatters, migrant workers, households without access to mortgage lending due to their low or unstable income and defaulted borrowers. Another category comprises of mobile populations, professionals having high income with no desire to burden themselves with the responsibilities of homeownership, parents whose children have grown up and people who prefer short-term accommodation for whatever reasons.

It is worth noting that in Moscow the majority of tenants are classified as tenants by constraint due to the high property prices and high mortgage interest rates (12-13% per annum in comparison with3-4% in Europe).

What are the most typical and common problems of tenants that unite them in an important social group? A major international housing organization, the International Union of Tenants, identified the following most common problems of tenants:

- Rapidly growing fees for housing renting
- Unequal conditions of tenancy agreements
- Poor management
- Overcrowdings in apartments
- Disregard for the tenants' rights and owners' responsibilities
- Unreliability of tenancy
- High probability of illegal eviction
- Inability to be legally registered which creates extra difficulties with employment

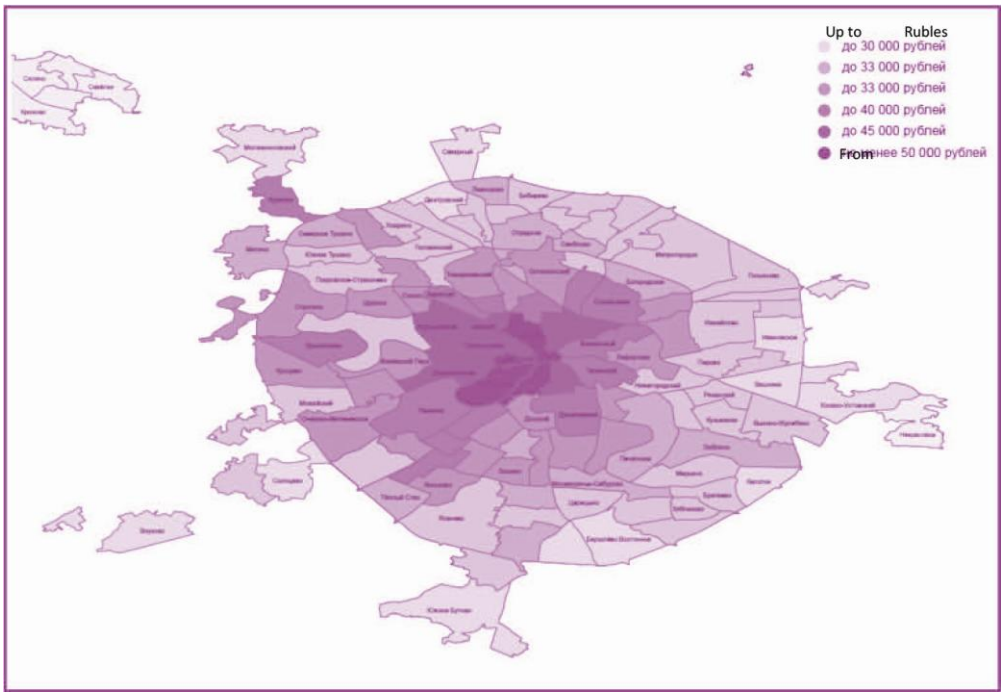
From an economic perspective, the inadequate availability of information is the most problematic factor in the relationship between landlords and tenants. Homeowners are not aware of how prospective tenants will be respectful of the property and its contents. Tenants, in turn, do not have sufficient information about the apartment itself and its surrounding urban environment (i.e., neighbors, the quality of ecology in the region, and its security). In a sense, at the moment a tenant acquires a property s/he is unable to fully evaluate the value of the property. A landlord also finds himself in a situation of information asymmetry, because he does not have sufficient information about the tenant.

Market situation of housing lease and rental in Moscow: Statistical analysis

As it was already mentioned, the amount of housing rental supply in Moscow is about 400 thousand apartments. The sort of apartments for rent varies from economy class one-bedroom apartments to luxury apartments.

The main difficulty when choosing suitable rental housing is to choose the best combination of price, location, conditions and size of an apartment. Often the determining factor is the rental price. According to the Unified Database on Real Estate Lease and Sale (cian.ru), the average cost of renting a studio apartment in Moscow is 33,000 Rubles, one bedroom apartment is 44,000 Rubles, and a two-bedroom apartment is 65,000 Rubles. The following maps show a distribution of average rental rates by district. The darker the coloring of the area, the higher the housing rental rates.

Figure 4: The average prices of a one-room (studio) apartment rental in Moscow



Source: The Strelka Institute, Analysis by Studio Links, 2014, cian.ru

Figure 5: The average prices of a two room (one bedroom) apartment rental in Moscow

Source: The Strelka Institute, Analysis by Studio Links, 2014, cian.ru

Figure 6: The average prices of a three-room (two bedroom) apartment rental in Moscow

Source: The Strelka Institute, Analysis by Studio Links, 2014, cian.ru

In addition to the obvious and clear trend regarding city central part pricing (the closer an apartment to the city center the more expensive it is), it is worth noting about expensive cluster areas in the western part of Moscow, where the rental costs are comparable to those of two-bedroom apartments in the city center. This includes, for example, Ramenky and Shchukino.

Ramenky is a modern area that was formed by the merger of the districts Ramenky and Mosfilmovsky in 1997. This is a dynamic area of new buildings. The modern housing estates are located there, such as Golden Keys on Minskaya, Syetun, Vorobyovy Gory, the residential community of the Russian Foreign Ministry on the Olof Palme street and the new houses on the Michurinskiy Avenue. The Moscow State University, Cinema concern Mosfilm and the ambassador's town are all located in the Ramenky neighborhood. The area is characterized by a clean environment and well developed services.

A distinctive feature of Schukino is that it has a well-developed and well-balanced infrastructure especially the Krasnopresnensky subway line and the Volokolamsk motorway. The main highway bypasses the area protecting it in such a way from excessive noise and emissions. Research institutes and medical centers are located in that area as well as well-developed leisure facilities.

In general, the western Moscow districts have a number of advantages. There is almost no industrial pollution there. Considering the western wind rose, it has a positive impact on the environment in the capital city. Historically the social status of people living in this area is higher than in other districts. During the Soviet era in the eastern parts of the city migrant workers often settled, and in the western part the so-called white collar workers like managers and intellectuals settled. The transport infrastructure in the western part of Moscow is also far more developed than the east.

Using econometric analysis the causes of the rental housing cost distribution by the territories was investigated. The purpose of the quantitative analysis was to try to associate the distribution of prices for rented apartments in a given area with the quality of the urban environment. Independent variables were taken into consideration which included social, economic and infrastructural data on Moscow districts excluding new joined territories for the year 2012. More than 90 indicators were analyzed.

Dependent variables including the average costs of renting an apartment (one, two and three-room) in a district in 2012 was used. The total sample consisted of 125 observations, which included observations taken in 125 Moscow districts excluding new joined territories.

To examine the relationship between dependent and independent variables the following multiple regression model was selected:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 \ldots + \beta_n X_n + \varepsilon,$$

where:

α – is the intercept

βi – are regression parameters indicating the degree of interdependency between independent variable Xi and the dependent variable

ε – is an error term

The results of the econometric analysis are consolidated in the following results table. It presents only significant explanatory variables, i.e. all else being equal, the impact of other variables on the distribution of the average apartments rental prices is not essential in the framework of the explanatory variables list that has been drawn up. Figures in the table describe the quantitative nature of the relationships between the explanatory and dependent variables: for example, with an increase in the number of crossings by 1, the average price for one-bedroom apartments increased by 510 Rubles.

Table 2: Results

	Studio average rental price	**1-bed apartment rental price**	**2-bed apartment rental price**
Number of crossings	0.51***	0.82***	1.61**
Number of motorways	-1.04*	-1.61**	-5.09**
Number of restaurants	0.08***	0.17***	0.83***
Number of car parks	0.17**	0.19*	-
Number of bars	-	-	-2.94***
Constant	29.72***	38.65***	55.44***
Number of observations	125	125	125
	0.49	0.59	0.53
Adjusted	0.47	0.58	0.51

In all three models, it can be seen that informal tenants prefer to have apartments in areas with a high quality urban environment, in the area they prefer to have few motorways, more parking spaces and recreational facilities (including restaurants). A negative relationship between rental prices and the number of bars in the area is probably due to the fact that the demand for multi-room housing is more attractive to families with children. A positive correlation of the rental rate with the number of pedestrian crossings is indirectly related to the availability of the metro nearby: the subway usually has a lot of underground exits and accordingly, more pedestrian crossings.

Thus, it can be seen that, despite the fact that the rental housing market in Moscow has an informal nature, its pricing can be explained using appropriate factors. People demand a high quality urban infrastructure, comfort and environmental friendliness in the space next to their housing.

The rental housing market can function without government intervention but the problem of information asymmetry for market participants in such circumstances cannot be so easily resolved. As it is now, it can lead to increased social tension, low tax collection and a decline in the quality of housing stock. From this perspective, it could be hypothesized that the informality in the rental market is a positive social bacteria. In other words, market informality does not preclude but rather contributes to the rapid search of property for hire, but in the long run it may have negative consequences.

Property renting and leasing: Experiences and an historical overview

When turning to the history of the rental market in Moscow, one can find some similarities with pre-revolutionary Russia.

In pre-revolutionary Moscow the majority of tenants belonged to the middle class. Finding accommodation at an affordable price was also a rather difficult task. At that time there existed analogues of modern real estate agencies, like the office called Proposals in Search Apartments Services (late 19th - early 20th century). In addition, at that time an Urban Society of Consumers functioned in Moscow providing assistance in solving the problems of searching for suitable housing. Poor citizens were assisted by the Union of Apartment Tenants, which not only looked for apartments but also provided small loans.

In addition, a system of informal rules was developed that contributed to the search for housing. Information on the availability of real estate offered for rent was obtained from ads on the facades of buildings or gates: red papers meant an apartment lease, and green ones referred to leasing of a room.

In pre-revolutionary Moscow, only 5% of citizens had property rights or house ownership. The housing problems of the rest of the population were solved by hiring an apartment or a room in tenement houses, these were specialized housing intended for rent. The first tenement houses emerged in Moscow during 1785 - 1790, and became widely used in the 1870s. It should be noted that the construction boom lasted until the war outbreak in 1914. Tenement houses accounted for about 40% of the housing stock in pre-revolutionary Moscow.

Mid-level entrepreneurs, merchants, large manufacturers, education institutions, partnerships and joint stock companies were engaged in tenement houses construction work. The Moscow authorities were involved in site preparation and infrastructure such as construction of power lines, sewers and the water supply. They were also involved with landscaping and street cleaning. Tenement houses allowed the local government to solve two tasks at once. First, the demand of the population for housing was met, and secondly, city coffers were replenished through taxes to owners of tenement houses. In this way, in 1913, taxes paid by the owners of tenement houses and other private property amounted to 7 million Rubles of the total 47.6 million Rubles city income. It is interesting to compare it with present data. In 2013, revenues for housing amounted to 700 million rubles, with a total budget revenue of1.481 billion rubles. It is clear that at present the city budget does not receive a significant amount of taxes.

During the Soviet period, more than 90% of the housing stock of the city was taken over by the state, who became the main property owner and the landlord. In that period so-called social hiring became popular. Social tenancy agreements of that period were unlimited in duration, without practical possibilities of termination, and were inherited by successive generations. The state acted as the property owner through state enterprises and departments. According to experts, up to 90% of housing stock in many Russian cities was departmental housing (housing owned and run by various governmental departments). The quality of housing and communal infrastructure of the housing and areas was mainly apartments.

Currently, the opposite trend can be observed, a significant portion of the housing stock has been privatized. According to the Department of Housing Policy and Housing in the city of Moscow, at the beginning of 2013 there more than 83% of the apartments were privately owned. Privatization was initiated in 1993 and it will be completed in 2015. It runs in the form of a free transfer of apartments to tenants that were registered to them during the Soviet era, to private ownership. Housing privatization initiated by the state in the 90s can be viewed as a mechanism to compensate for the financial loss to the public, greatly impoverished during the economic crisis of the 90's. It can be assumed that privatization was a debt repayment from the state to the population, it has changed the perception of private ownership of citizens: city dwellers lost incentives to pay taxes on rental incomes because the government has virtually donated housing to them. Such a perception of private property by citizens led to low tax collection and budget losses.

It can be roughly estimated how much the Moscow budget loses due to the gray rental market in the city as follows: If the average cost of an apartment renting is 47.5 thousand Rubles, an owner receives

from this activity an income of about 570 thousand Rubles a year. Assuming that in the city 400 thousand apartments are leased, the amount of accumulated income from renting the apartments in Moscow is 228 billion Rubles. In this case, the missing taxes to the budget of Moscow can be estimated at 30 billion Rubles.

How to convince citizens to pay taxes?

As it has just been mentioned, at present only 23.5 thousand landlords pay taxes on rental income. Currently those, who wish to legally rent out their apartment, can use two mechanisms for paying taxes. The first is taxation of personal incomes (13%); another is by purchasing a license. Most legal landlords (18 thousand) use the first option: they fill in tax declarations and pay personal income taxes on incomes received. According to Mr. Reshetnikov, the Head of Economic Policy and Development Department of Moscow city, this method is more beneficial for owners of economy-class housing. They pay to the city treasury between 30 and 40 thousand Rubles on average per year. A license is more applicable to the expensive housing, with rent prices starting from 60 thousand Rubles a month. For the purchase of a license it is necessary to be registered as a private entrepreneur. In this case, the license costs 60 thousand Rubles plus premiums amounting to about 25 thousand Rubles, which the individual entrepreneur has to pay to the Pension Fund and Health Insurance Fund. Its advantage is that it is a fixed price. In addition, for people it is perhaps psychologically easier to pay for it as it cuts out a lot of paper work and they do not have to visit the local authorities. But only about 5,000 licenses are in current use by residents.

The attitude of the Moscow Government to this problem is clear: it is necessary to pay property taxes on the rental incomes. However, this attitude implies existence of solely enforcement methods and policies of influencing people. The question; how is it possible to encourage people to pay taxes? is not being put on the agenda. The problem of a forced stimulation method is that it is quite expensive to implement and is accompanied by high transaction costs.

In this study several assumptions were put forward as to how to create incentives for residents to pay taxes on rental income. Each of the assumptions in the future may well become the subject of a separate study.

The first assumption is that taxes could be utilized to improve housing infrastructure and quality of the urban environment. In this way, understanding that the property taxes are used to improve the urban environment directly next to the housing can serve as a strong incentive to pay taxes. On the one hand, it increases the capitalization of property, as poor infrastructure and low quality of the environment around the property may have a negative impact on the rental rate. On the other hand, the factor of civic consciousness is arising: payment of taxes allows people to demand how taxes are used in specific ways, and encourages participating actively in the district life.

The second method is the instigation of formal contracts between landlords and tenants. A lease agreement is the main document determining the relationships between a landlord and a tenant. It contains the basic conditions for the housing provision for rent: lease period and the possibility of extending the contract, payment rate and payment fees for utilities, conditions of eviction from an apartment, terms of renovation, etc. In some countries, the conclusion of such a contract is preceded by filling in a rather extensive questionnaire by the future tenant that neutralizes the problem of information asymmetry. In Canada, for example, many landlords demand filling out of such a questionnaire, which contains questions about car possession or information about bank accounts. It is also necessary to provide references from previous landlords.

The third assumption regards setting up a housing court institution, which would be used for a quick trial for non-payers or settling other conflicts between parties. The purpose of establishing a housing court is that it will give a swift and fair resolution of a conflict, which otherwise could take months, if not years to resolve in a normal court. Interesting international experiences where this takes place are as follows: In Switzerland, where, since 1936 there exists a special housing court (Regulatory Tribunal) for tenants and landlords. In a session usually two judges take part, one of which represents the interests of the apartment owners and the other defends the rights of the tenants. Unlike any other

courts, this tribunal works for free. Since 1990, this tribunal is also allowed to make amendments to the federal legislation in Switzerland.

In Sweden, the housing Court consists of three people: a professional lawyer, who is a public official, a landlord representative and a tenant representative, who is usually a representative from the Swedish Union of Tenants. For Russia, the introduction of the housing court for the legal rent market would help make the informal sector activities more transparent, as for the part of landlords it could become a mechanism for reducing risks.

A fourth method is the facilitation of tenant's registration. Registration of tenants is in some sense the cornerstone issue in formalizing the housing rental market. Firstly, landlords do not wish to register their apartments to people *from the street*. Secondly, it requires certain amount of time and effort. The registration procedure for official tenants should be more simplified than it is a present. Perhaps, an electronic notification registration system could be developed that does not imply visiting government offices.

Currently, the informal housing rental market in Moscow operates without government interference, despite the existence of the problem of information asymmetry. At the same time, the balance of this market can be significantly improved. Measures to overcome market failures are not only able to improve its performance but can also promote the growth of citizens' consciousness and create incentives for tax payments. However, the following question arises: Is the Moscow City Government ready to invest significant financial and human resources into the housing rental market to make it more "civilized"?

Chapter 4: Temporary constant: Unauthorized construction and informal construction processes

Lusine Arsenyan

Along with construction projects of various scales, a barely noticeable informal construction activity can be observed in the capital city, which is called unauthorized construction. Mapping and econometric modeling was used to find out in which city areas had unauthorized construction takes place, the frequency, and why. In this paper, a process of obtaining building permits has been analyzed as well as relationships between developers and regulators, which are considered part of the institutional economic theory. The results obtained have helped to make recommendations as to legal regulation improvements as well as to enhancing the role of local communities.

Property in Moscow tends to be one of the most expensive in the world and the construction sector, throughout the country, is the second most profitable industry after the oil and gas businesses. It is not surprising that Moscow's construction industry is of considerable interest to investors.

However, the construction sector in Moscow still has a long way to go forward to reach the international level in terms of quality control and approval procedures. According to the World Bank, in Moscow, it is necessary to pass 36 approval procedures for the construction cycle. It takes in average 275 days and costs 361.6 thousand Rubles. In comparison, the number of procedures in Denmark, Sweden and New Zealand varies from 6 to8. The target indicators for Moscow in 2014 are 12 procedures, 182 days and 118.6 thousand Rubles. The number of procedures does not correlate with the construction safety. In reality, the situation is different. Overregulation may involve a number of risks, such as failure to comply with a number of rules and regulations, reduction of public safety, high barriers to entry into the industry, a risk of cartel collusion, or misconduct of officials.

Evidence indicates that in developing countries 60-80% of construction projects are carried out without appropriate permits, e.g. in the Philippines, 57% of all new construction is considered informal. A hype in the media has been frequently observed, that in some way was associated with the construction sector, and headlines were filled with words such as "defrauded real estate investors", "bribes", "illegal labour market", and "unauthorized construction". In addition, the terms "infill development" or "compacting construction" gained a particular meaning in the Moscow context. Certainly, the extent of unauthorized construction in Moscow and the Philippines are not comparable. In Moscow, there are no favelas but the issue of unauthorized construction is periodically popping up on the agenda.

Everything stated above determines the relevance of the study, in which an attempt was made to figure out how the informal economy is manifested in the construction sector in Moscow during the interaction of key market players.

Within this study such phenomena have been analyzed as unauthorized construction. As a tool of analysis, GIS-mapping and econometric modeling were applied. In addition, within the project, construction processes in Moscow were studied as well as informal elements that involve these processes. For analysis of the identified informal elements, the institutional theory of crime and punishment has been applied. On the basis of this analysis general outlines of the recommendations have been presented. Due to the time constraints of the project, this study does not reveal all important issues related to the construction industry.

Unauthorized construction

The Civil Code of the Russian Federation provides the following definition of an object of unauthorized construction: "An unauthorized construction object is a residential building, other facility, building or other real property constructed on a plot which had not been allotted for this purpose in accordance with the law and other legal acts, or built without obtaining the necessary permits or with fundamental breach of urban planning and building rules and regulations".

In the Moscow City Government's Decree № 819-PP dated of December 11th, 2013, 516 objects have been indicated that do not have a building permit or that had been built on plots, not allotted for

construction purposes. 207 plots have also been mentioned (either being owned by Moscow municipality or residing within the city area but whose ownership is not well defined) that were not intended for construction, or containing objects placed on these plots, which do not have the appropriate permits.

The government claimed that such facilities would be demolished or turned over to the municipality. For detecting and preventing unauthorized construction in Moscow city, there exists a special commission headed by Deputy Mayor Marat Khusnullin. The cases when the area of an informal construction object is more than 1.5 thousand square meters are usually dealt with by the Commission and objects that are smaller than this are the responsibility of the District Commissions.

Among the informal developments, popular cafes and restaurants have been detected such as John Bull Pub on Krasnaya Presnya, Mu-Mu on the Arbat, two restaurants Starlite Diner at the Bolshaya Sadovaya Street and Bolotnaya Square, and also representatives of the popular food networks such as Shokoladnitsa and Burger King.

Data on unauthorized construction for the purposes of this analysis were obtained from official sources. Based on the collected data, an econometric analysis was carried out to identify the dependencies between informal construction facilities and various formal indicators from the Federal State Statistics Service. In addition, GIS-maps have been constructed and data has been grouped by regions.

By using GIS-modeling, a map came out (see the following Figure), which shows that the majority of informal objects had been built in the north-eastern part of Moscow city – 108 in total. The following are the Northern and the South-Eastern districts – 106 and 107 respectively. In other districts it the volume of informal construction is much less. In particular, in the Eastern Administrative District, 79 objects were found, in the South West – 62, in the West – 54, and in the North-West – only 29. Most of the detected informal construction objects were annexes and shopping pavilions.

Figure 7: Unauthorized construction in Moscow city

Among the areas having a large number of unauthorized construction objects (on the figure they are marked in a darker color) one can single out Bibirevo and Otradnoye in Moscow's northern part, Izmailovo, Lefortovo, Nizhegorodsky and Pechatniki in the eastern part of the city. Among the reasons for the existence of such a high level of informal construction in the North-Eastern region is the low land costs as well as low population density. Low land prices allow purchasing land plots to a wide range of people but building facilities on those plots involves a number of difficulties. The main

problems are associated with obtaining a building permit. Igor Protopopov, a member of the Moscow City Duma's Commission for State Property and Land Management claims that: "Obtaining a building permit is a complicated process. It sometimes happens that a company has 99% of the required documents, and 1% is absent due to elementary bureaucratic delays. If under such circumstances, a court may judge a building as an unauthorized construction object, an owner should submit a counterclaim demanding that a construction facility become legalized." Low population density infers the availability of spaces that can be built upon both legally and illegally. Indeed, when comparing the availability of free space in the Central District and the North-East region, one can observe a striking difference.

Econometric analysis of informal construction processes, that considered various formal indicators of the Federal State Statistics Service as dependent variables, showed that the parameter *the number of public service facilities* has a significant and positive effect on the amount of the unauthorized construction, and the parameter *the number of permits for facilities commissioning* is less important but also has a positive effect on the level of informal construction activity.

Theoretical foundations

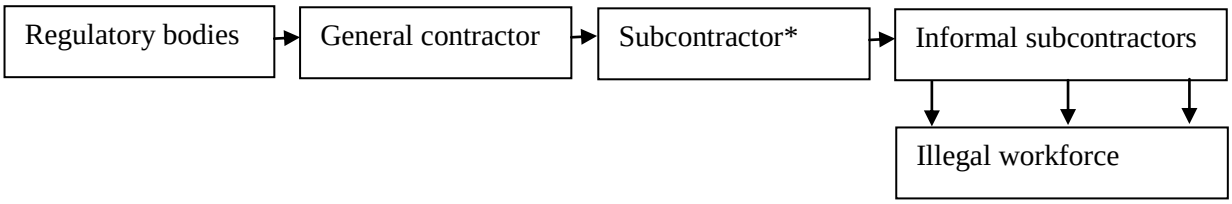
When studying the informal economy, structural and institutional approaches have been used. In the early 1970s, Keith Hart proposed to define informal economy as a certain set of activities that are not accounted for in official statistics or not accompanied by formal contracts. Hart identified three types of income: formal legal, informal and illegal informal. By legal and informal incomes he implied outcomes of household interactions whose economic activity is impossible to control formally and take into account due to high transaction costs. Illegal and informal incomes are related to the shadow economy, i.e. those are revenues, which are intentionally hidden from taxation.

Firms as elements of the formal sector of economy, in the framework of the institutional approach, should follow formal rules, but this does not always happen. In cases when formal rules are violated, they are treated as informal elements of formal processes. In other words, in this approach, "informal economy is placed in the broader context of informal relationships widely accompanying formal institutions giving them more flexibility in their operation and compensating for inevitable failures. Such interpretation of informal economy makes it an integral part of virtually any activity, without exception, market actors."

It is also worth noting the model proposed by American sociologists Alejandro Portes and Saskia Sassen-Koob, where informal economy is interpreted as a phenomenon that is organically built into formal economy. They argue that in informal activities, both large formal firms and informal workers could be involved, and interaction between them could be established through contracts with a company that would organize interaction between formal and informal sectors.

Such a model can also be built for the construction sector in Moscow (see Figure 8). In this model, a communication mechanism between formal and informal sectors serves a subcontract.

Figure 8: Interaction model between formal and informal sectors in the construction industry in Moscow city



* Subcontractors may interact with a general contractor: in this case, the model will consist of three stages

The model shows the point at which informal and formal sectors are intersected and explains why illegal workers can be found on construction sites of major developers. When subcontracting smaller firms, which tend to reduce their costs, they are able to run their formal business at low costs. Reducing costs by smaller firms has a positive effect for both medium-sized and large businesses. In this way, small firms are able to take part in tenders and have a competitive advantage in the form of a cheap labor force provision which can offer a lower price for a certain volume of work.

Crime and punishment

According to the economics of crime and punishment, if non-compliance with formal rules is highly lucrative, then costs associated with formal rules enforcement tend to grow. Irrationally designed legislation encourages the emergence of corruption, and decisions are taken by officials without balancing interests of market agents.

In this market, three key market actors can be identified: the government, investors and local communities. Due to the specificity of the construction industry in Moscow, businesses and regulators cooperate closely in the construction processes, and local communities have low bargaining power, which reduces their ability to influence construction decisions.

According to agency theory, corruption arises with the interaction of three kinds of actors:

- Principal (who establish formal rules)
- Agent (who ensures compliance with formal rules established by a Principal)
- Customer (who is interested in violation of formal rules)

Corruption arises when a Customer makes a demand for violation of formal rules established by a Principal and an Agent violates a rule in the interest of a Customer for a fee. If in this framework a state government acts as a Principal, officials act as Agents and a company or a developer acts as a Customer, then this phenomenon is called administrative corruption.

There exist two models of administrative corruption.

Model 1. Administrative corruption with theft: a good, which can be supplied only by the government (Principal), is purchased by a Customer from an Agent for the price that is lower than official one, and money is not included in the budget.

Model 2. Administrative corruption without theft: a good, which can be supplied only by the government (Principal), must be submitted to a Customer free of charge or for a fee but due to certain reasons a Customer has to pay to an Agent an excessive service cost.

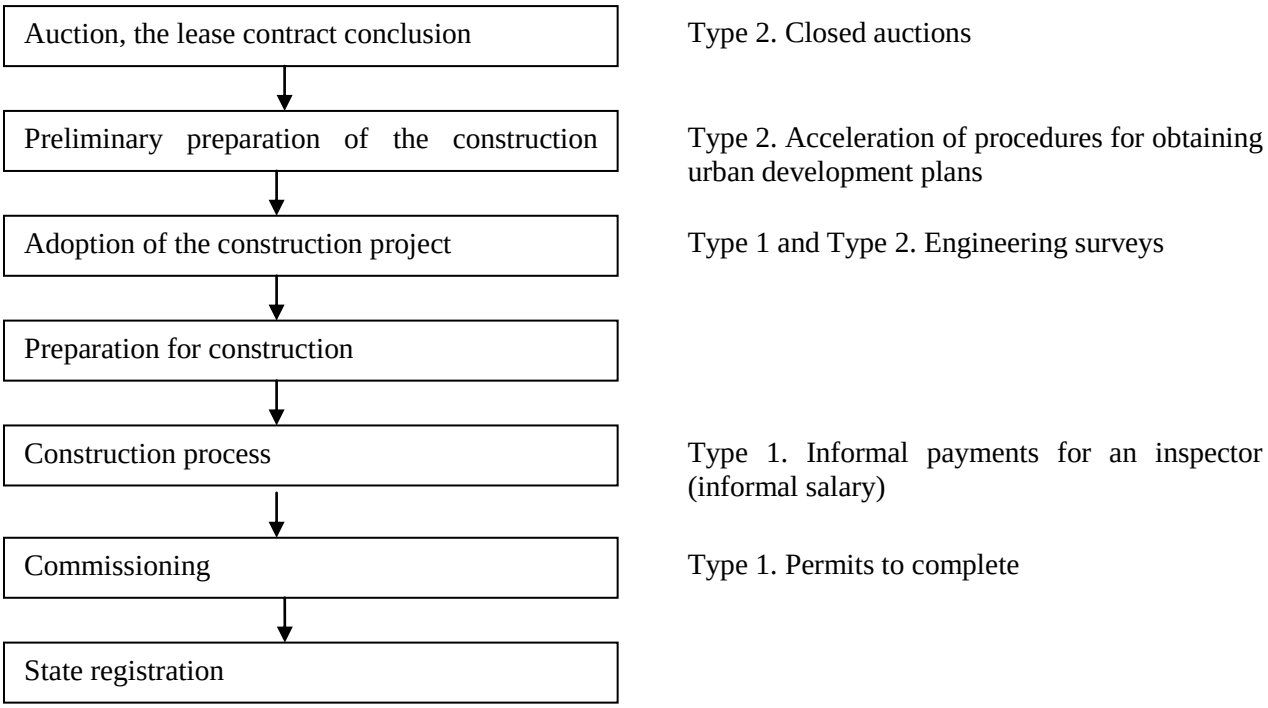
Let us consider a construction process in Moscow (see the following Figure), where Model 1 appears to be administrative corruption with theft, and Model 2 is administrative corruption without theft. According to surveys conducted in the study by Dina Krylova and Sergei Plaksina, and surveys of developers, the most expensive stages are the first stages of a construction cycle: auctions, obtaining building permits, engineering prospecting, and urban development plans provision. At these stages one can mainly observe administrative corruption without theft.

Estimating an extent of informal payments, industry representatives admit that at the stage of an auction, informal payments can be as large as 1.15 million Rubles. This informal payment is intended to increase the chances of obtaining a contract. Also auction participants argue that there exist closed auctions that are held at an accelerated mode, when they either become known after an auction is closed or it is technically impossible to find such an auction through search engines.

At the stage of a construction project preparation, investors are faced with the problem of obtaining urban development plans. Local officials substantially violate the terms of documents provision without legal grounds. When trying to solve a problem through proceedings, timelines are stretched even more. Informal payments at this stage, according to developers, can reach as much as 3 million Rubles.

At the stage of project documentation approval, investors incur both large formal and informal costs. Cost of expertise can reach to about 2 million Rubles, and to obtain a positive conclusion and to accelerate the date of documents examination, informal payments can reach as much as 3 million Rubles.

Figure 9: Construction process in Moscow city


Auction, the lease contract conclusion
Type 2. Closed auctions
Preliminary preparation of the construction
Type 2. Acceleration of procedures for obtaining urban development plans
Adoption of the construction project
Type 1 and Type 2. Engineering surveys
Preparation for construction
Construction process
Type 1. Informal payments for an inspector (informal salary)
Commissioning
Type 1. Permits to complete
State registration

Further, the nature of informal payments is changing. At the stage of facility construction, according to developers, it is impossible to observe all the rules and safety regulations. For this reason, to avoid wasting time and halting construction process, informal payments are made to an inspector, who is put in charge of a construction site. Often these payments become regular, and they are comparable with an informal salary that is paid during the construction time span. This is administrative corruption with theft, as an inspector has to monitor implementation of formal rules, and if they are ignored, he has to impose penalties that would be supplied to the budget.

At the commissioning stage some developers incur large informal payments. Often this happens due to unfairness of developers who commit serious violations of norms and standards. Cases might happen when unfinished facilities are brought into service. Depending on how significant deviations from the norms are, informal payments vary from between 3 to 5 million Rubles.

At the stage of state registration, informal payments range between 20 to 40 thousand Rubles.

From the above analysis one can observe the various informal payments that exist during the construction processes in Moscow. By examining the concept of administrative corruption with theft, situations were explored in which the state incurs a loss. In the case of administrative corruption without theft it can be seen at what stages businesses have difficulties that restricted competition in the industry and the increased costs during the construction cycle. It has also been uncovered, that businesses that are prone to opportunistic behaviour are capable of avoiding liability by violating the norms through informal payments. It is also worth noting that the bulk of informal payments are made to accelerate receiving documentation.

Recommendations

On the theoretical and conceptual levels bargaining power of local communities should be strengthened. It will contribute to the emergence of competition between pressure groups: investors and the local community, which will lead to a balance of interests. The policy making environment is divided into two parties: subjects implementing the policy solution proposal and those creating a demand for the policy solution. Political equilibrium depends on the effectiveness of each of the pressing groups.

On a practical level, one of the factors causing an existence of high corruption potential within the construction industry is the weakness of the legislative and regulatory framework in the field of urban development. In Moscow, there are no land use and development rules, or urban planning regulation standards. In circumstances when planning documentation is absent there is no clear understanding of what is allowed to build, and what is not. This opens up opportunities for corruption schemes, as decisions on construction are made situationally.

To overcome the problem, it is necessary to review the list of procedures that accompany a construction process. An objective legal framework for urban planning regulation should be developed. It is also necessary to improve the existing building codes, to make them similar to the European codes.

At this moment, e-government services are provided for construction projects financed from the budget (auctions, obtaining building permits, engineering prospecting, and urban development plans provision). Commercial property developers should also be included in the list of e-government services recipients.

Local communities at the earliest stages should also be involved in the construction processes, and these processes should be transparent containing clear information communication. Local communities should raise their bargaining power by increasing their representation in local governments. It is gratifying to realize that the Moscow city authorities understand the need to improve obtaining procedures for building permits and are developing measures for making the situation better. In particular, according to the Department of Urban Policy of Moscow, in 2014, a road map named "Improving investment climate and reducing administrative barriers in construction sector" was developed, which includes measures for reducing administrative barriers and increasing interaction with construction companies. The Moscow City Government proposes to eliminate up to 24 procedures, which are recognized as irrelevant.

Chapter 5: Not only about money: The role of markets in Moscow City

Regina Magomedzagirova

One of the oldest trade institutions, retail markets have become a kind of collection of economic and social practices including those that can be attributed to the informal economy. Markets are the places for monetary as well as for social, cultural and informational exchanges. In the study, the markets' position in contemporary Moscow has been determined using econometric and anthropologic research methods. As well, new models have been proposed that will incorporate them into urban life. Particular attention has been paid to flee markets: factors of their placement and motivation of participants were identified, and measures were proposed for transforming flea markets into an element of the city's tourist attraction.

The destiny of Moscow markets is one of the most pressing issues in today's debates about the future of the city. Urban policies are largely aimed at their termination or, as a milder option, the formalization of their operation. Among the reasons mentioned are insufficient revenues as well as counterfeit products, inefficient use of urban space, ethnic conflict risks, etc.

At the same time, surveys carried out by the Levada Center and the All-Russian Public Opinion Research Center show that more than half of Moscow's residents are of the opinion that markets should remain functioning; they should retain their original nature, though in a more civilized manner.

Cultural diversity and the free format of buyers and sellers interactions are the distinctive features of markets, which makes them different from shopping malls and features them as an important institution for urban culture formation. This feature arises largely due to informality of trading processes and lack of total control over market price levels and sales methods. The negative side of informal trade at markets is the lack of goods certification and possible cheating by either of the transacting parties. People that came to a market do not expect that a purchase agreement will be secured and provided with a receipt. What enables a buyer to take such a step is, primarily the credibility of the market as an institution. However, under conditions of high competition from foreign capital and major domestic retail networks markets need to be renewed especially infrastructure enhancements and image transformations.

In this paper, Moscow retail markets have been studied in the context of mutual influence of informal economy and urban areas. As well, informal practices of trade relations were explored, arising in the market space between all the parties: merchants, buyers, and administration. Unregistered spontaneous markets have been excluded from the field of research as such markets typically do not have a specific location, and the number of merchants and buyers attracted to them is of little interest for a quantitative study.

Two techniques were used for the research. The first one was a regression analysis of markets location in the city. The results of the econometric study have shown that the location of markets and shopping centers has an influence on distinct factors. Dependence on these factors on an infrastructural environment was also detected. An additional analysis of the history of trade development in Moscow was also carried out; the conclusion drawn showed that prevalence of retail markets in a particular area is temporary.

Another technique used in the study was qualitative analysis. Surveys were carried out, regarding the attitude of Muscovites to markets in general and to market informal practices in particular. A field research was conducted on the largest flea market in Moscow the Levsha market, which is located at the train station Novopodrezkovo in Molzhaninovsky city district. To study the nature of flea markets, research methods were used such as photography, in-depth interviews, and participant observation. According to the results of the sample survey, it was concluded that most of the merchants do not aim to earn a living with incomes derived from sales at flea markets. For many of them this activity is largely a way of socialization.

Moscow markets: Location factors

An objective of this part of the study was to determine a correlation between market locations and socio-economic development indicators of the Moscow districts. In addition, the location of large shopping centers was analyzed, which can be considered competitors to traditional markets.

As dependent variables in the first model, various indicators related to Moscow's official markets functionality were used, which were collected from various websites. Regression analysis was carried out at the district level due to the desire to highlight certain areas rather than single points on a map.

For convenience, markets were classified in accordance with the Federal Law 271, which defines the terms of markets specialization (agricultural, food, merchandise, construction, etc.). For the second model, data regarding Moscow's shopping malls and hypermarkets were used. As explanatory variables, parameters were used such as local budget revenues, collected taxes on personal income, local budget expenses, the number of cultural institutions, population size, natural growth rate, migration gains (in total, and according to nationality groups), wages fund for all the city employees, the number of crimes per 10 thousand inhabitants, etc.

Regression analysis was carried out on the basis of a multi-dimensional model using dummy variables (e.g., a district industry rate). Also, a third model was constructed, explaining the spatial location of flea markets in Moscow.

As a result, the following equation was derived, equating the number of markets in the region:

$$\text{Markets} = 0.39 + 0.02 \times \text{Bus stops} + 0.18\times \text{Hotels} + 0.02 \times \text{Tram stops} \quad (1)$$

This equation indicates that market location to some extent is correlated with the location of hotels, which was an unexpected result. Bus and tram stops, proved to be important for a markets location. However, as it can be observed, subway stations do not have any significant explanatory power in locational market distribution. While in the model for supermarkets, metro stations play a considerable role.

Figure 10: Moscow retail markets locations

Incorrect figure (from one of the previous articles)

On the map, areas with a higher concentration of large retail markets have been highlighted in a dark color (between 4 to 7 markets are present). Areas, painted in a lighter color, contain within its territory from 1 to 3 markets of different formats. There also exist areas in which there wereno major markets.

For flea markets the following equation was derived:

$$\text{Flea markets} = 0.02\ \text{Bars} + 0.13\ \text{Hotels} + 0.02\ \text{Parking} + 0.08\ \text{Public Buildings} \quad (2)$$

In the same way as for all the markets, hotels and public event venues were meaningful to some extent for flea markets. It was established that the parameter flea markets correlates with such factors as weekend fairs, public buildings, parking and bars.

Figure 11: Flea market locations

Incorrect figure (from one of the previous articles)

The map №2 represents not only a concentration of flea markets but also their significance for the city. The index was calculated as the average of the two indices ranging from 1 to 5 where the first index reflects the market square, and the second publicity namely the frequency of being mentioned in the media. The most popular flea markets in Moscow are located in areas highlighted with dark color. The results of econometric studies have shown that the location of markets and shopping centers depends on various infrastructural matters. To interpret these results, it is necessary to determine in what way we are considering markets: in a static nature or a dynamic nature. In the first case, a

different location of markets and supermarkets indicates that shopping centers and retail markets are not fighting for the same place, and it means that they are not competitors. Shopping centers demand more space, road density for them is less critical, and the proximity of subway station appears to be more important. Markets are more sensitive to the factors such as road density, and they are located in more densely populated but less expensive, in terms of renting rates, areas. Synchronic static analysis shows different correlation degrees of markets and shopping centers location in relation to urban environmental factors. This data even provokes drawing a conclusion that markets will not be pushed out by large retail networks, as these facilities are differently placed in the city.

However, common sense and knowledge of trade history requires a more thorough analysis of the results of econometric modeling. It is easy to detect that markets and shopping malls are competitors and there is a trend of market displacement by shopping malls. When looking at the development of trade since the oldest times, it is possible to trace the evolution of trading venues: from outdoor areas to indoor passages and galleries, and then to the enlargement of these passages and their integration, supplementing shopping areas with recreational activities, food courts and car parks.

These processes of integration of retail facilities are also taking place in Moscow. One can assume that the prevalence of retail markets in a particular area appears to be temporary. The construction of shopping centers continues and the retail market has to shrink.

As an example, the history of the Tishinsky market in the center of Moscow can be considered. The market ceased to exist in the 1990s, it was replaced by a shopping mall. This particular example is remarkable since many years later on its territory a tradition of antique fairs was resumed in the form of a flea market, albeit with a drastically different assortment and entourage than was at the old Tishinsky market (for example, even the entrance to the new flea market is chargeable). However, retail markets tend to be superseded by shopping malls. And if a market is not demolished from the very beginning, it gradually loses its attractiveness to buyers due to low prices and more comfortable purchase conditions in hypermarkets or supermarkets in the shopping malls.

Moscow's flea markets

Why flea markets? This kind of markets seems to be the most interesting for analysis because of several features. Firstly, this is a traditional form of urban trade, in which all the citizens can take participation. Secondly, this is a phenomenon that has not only an economic component, but also significant cultural and entertainment elements: as a striking example, European markets, tend to be tourist attraction points. Thirdly, for a long time flea markets in Moscow have been forced out of the city center (one can follow the evolution of the centrally placed Tishinsky market in the early 1990s to the peripheral area of Novopodrezkovo today) but due to the growing interest in urban issues they are receiving new interest amongst young citizens, who are more readily attending such activities. In this regard, flea markets seem to be interesting and promising targets for analysis.

Flea markets are significantly different from all other markets (agricultural, merchandise, food, etc.), firstly regarding the type of goods and, secondly, on the motivation of buyers and sellers.

Scientific literature contains a bulk of works on the markets. Basically, these are historical articles holding economic elements, e.g. the history of shuttle trade after the collapse of the Soviet Union or emergence of modern retailing. Some of these works are related to flea markets. The main technique that is used in these articles and monographs is anthropologic study. The specificity of this method lies in detailed analysis of everyday life of buyers and sellers at flea markets. It is related not only to their interaction within a transaction, but to sellers' attitude to each other, a life outside the market, sellers' social identity and much more. In scientific papers the flea market is positioned not only as a place for shopping, but also as a resting place filled with the festival mood.

O. Pachenkov explored quite thoroughly the flea markets of Saint-Petersburg. He uses the term *daily economy* to those daily practices that take place at the flea market, and hypothesizes that flea markets inherently allows implementing an adaptation strategies. A Flea market, according to O. Pachenkov, is not a purely economic institution. Its other function is more important; it prevents people from slipping to the social bottom, and averts their exclusion from urban society. Applying the social law of embeddedness by Karl Polanyi to flea markets, Pachenkov claims that economic action loses its

primacy being immersed in the social and cultural context of flea market. According to O. Pachenkov, the vast majority of institutions and practices that make up the phenomenon of daily economy fall into the informal economy, which coincides with the opinion of the author of this article.

I. Ivleva classifies pricing mechanisms at flea markets. She identifies two strategies; the first is a *heroic strategy* when seller's lifetime achievements allow him to raise the price on the item and embroider it with an exclusive story. And the more times a thing's owner has been changed, the more expensive it becomes. The second known as the *victim strategy*, is a consideration of trade and shopping at flea markets as a social decline, and buyers and sellers compete in *status lowering*. The main objective of this strategy is to prevent a fall in prices. It is implemented through the poor garments and showing of a lack of funds.

According to the study of flea markets in St. Petersburg, O. Pachenkov, L. Voronkov and I. Ivleva identified the following features of flea markets:

- Lack of a clear assortment and related market structure
- Presence of non-professional sellers without having clear pricing strategies
- A product can remain unsold but can be sold almost for free
- Many sellers refuse to pay rent for trading space, taking it as an insult and extortion

V. Vinogradsky, following the teachings of the ex-polar economist T. Shanin, highlights the following feature of the informal economy: "The actions are not aimed at profit maximization but at survival, that is, the informal economy is associated with a variety of human relationships".

From all of this, it can be concluded that social policy should be implemented in different ways within the economy of survival and the development economy. Flea markets solve the problem of building a relatively normal everyday life, and market practices in this case are only the means for achieving this goal.

As for Moscow, in the city there are not so many flea markets; 5 markets are registered and 49 are referred to in the media. The majority of the flea markets were forced out of the city center. The largest flea market in Moscow is the Levsha flea market, which resides in the neighborhood of the railway station Novopodrezkovo. Another flea market is located at Izmaylovskiy vernisage. The prices at the Izmaylovo flea market are higher than at the Novopodrezkovo flea market. Traders often buy goods from on the Levsha flea market and then sell them at the Izmailovo flea market, which is characterized by a higher degree of transport accessibility. A social market is located on Shkolnaya Street where retirees are free to trade every first and third Saturday of the month. Prices there are low but goods, at first glance, do not represent any aesthetic value. Other markets do not have official status, and are emerging mainly spontaneously closer to other markets or weekend fairs. As the basis for a regression analysis, we took the number of markets referred to in media – 49.

It is quite difficult to determine the economic value of a market and its daily turnover. In Russia this has not been analytically studied throughout history. In foreign studies, the work by Alfonso Morales and his colleagues can be mentioned, they studied a the flea market in Chicago. Morales found that the net present value of that flea market on the basis of future losses of buyers and sellers, as well as taking into account the multiplier effect of the market closure, which happened a year after the study had been conducted.

Levsha flea market: Fieldwork research experience

For qualitative research the Levsha flea market was chosen as the largest and most famous flea market in Moscow. Levsha flea market is a spacious outdoor trade area, where merchandise is laid out by sellers mostly directly on the ground.

Over a two days' weekend the market is visited by an average of 4.4 thousand sellers and 10 thousand buyers. That is five times more than the population of the Molzhaninovsky district where the market is located. A trading place costs an average of 150 Rubles per day; a place embracing space for car parking is 200 Rubles. There is a special price for senior citizens; they only have to pay about 30 Rubles. The market is guarded by a single security guard. Cleaners and two supervisors who check

the tickets are also working at the market. The director of the market asserts that the market makes no profit, and the main idea of market operation is a social support.

Trading places are classified into several types: on the ground, on tables, and in tents (small stalls). At the entrance, the market stalls are more commercialized, offering a greater variety of merchandise at higher prices. Market vendors set up tents themselves to attract customers and to work in a comfortable environment. It is noteworthy that such a workplace transformation did not increase the rent fee.

Levsha flea market operates only on weekends and closes usually by 16:00, although the official working time is until 18:00. Despite the presence of plenty of buyers at the market, sellers pack up for home early as they are their own bosses.

One of the study objectives was to determine the motives for trade and understanding purchases and sale mechanisms that are functioning at the flea market.

Motives for trade

According to the sellers, they commenced working at the market by selling their own goods that had accumulated at home but when everything was sold, they began buying from others and working on the market permanently. Usually they buy from *incidental* people or from newcomers who come for the first time. Experienced sellers pounce upon newcomers and buy all of the most interesting goods for resale. Sellers like to tell for how much they bought a particular item, they like to boast that they managed to *snatch up* valuable goods virtually for nothing. They advise customers to come to the market early as the early bird catches the early worm, e.g. something interesting at a cheaper price and not to buy goods with a surcharge. Such behavior is hardly typical for merchants in shopping malls or even on merchandise or food markets. Many sellers explained they sell virtually nothing over the whole day and go back home with their items. Nevertheless, these vendors come anyway every week to the market with huge bags.

What motivates flea market sellers? A flea market is a social institution within which not only exchange of goods takes place, but also exchange of stories, culture, and political views. Almost all of the sellers regard the main purpose of the market not as a profit making tool but as a social engagement and communication tool.

During interviews, the majority of vendors were reluctant to disclose information about their core business. From this, one can conclude that it is not, according to the public, sufficiently prestigious and low-paid. Provided that the market is closed, sellers incur substantial losses, even if profits from sales on the flea market constitute a small fraction of their total income.

Pricing mechanism

In the mechanism of price setting at a flea market, you can distinguish the following pattern: sellers in most cases do not know exactly what price should be assigned for a particular item. As a rule, they are not guided by the prices in the shops or on the internet. Thus, the flea market is in itself a bounded model of market interaction. Sometimes buyers set a price themselves, and if it does not attract sellers, a bargain may be struck. Discounts at flea markets certainly take place, and sometimes they reach up to 50%. A haggle brings smiles to sellers' faces. They like bargaining, communicating with customers and acting strategically. Sometimes a price has been set at 50 Rubles and in the process of bargaining it may be reduced even to 20 Rubles. For antiques and ancient things, prices are determined by sellers, based on their knowledge and experience. Basically, sellers are not professional artists, restorers or sculptures, but they trust their intuition on truly valuable things.

Assortment

Many people sell things from their youth or youth of their parents. They willingly share interesting tales from their lives and are filling things with their lives. However, there are the exceptions who do not sell any personal goods. One woman remarked: "A normal person would not sell his grandfather's stuff on the market. Anyone, who tells stories, lies". She buys items on the market, or somebody

brings them to her, and she sells them. She is not capable of telling stories about those items and does not consider it necessary.

In general, the hypothesis about sellers' motives not being focused on profit maximization has been confirmed. Flea market seems to be not only a place for shopping but also a historical museum in the open air, a club of people having common interests, and an institution for social support.

Recommendations

Quantitative and qualitative analyses have enabled us to identify some of the recommendations. Their common meaning is to ensure that for a city it is important to consider a model that would harmoniously combine a formal component and requirements of economic efficiency with informal, social, and cultural capital, which flea markets are full of.

What could this mean in practice?

In a spatial sense, it is necessary to optimize flea markets locations taking into account current trends. This, first of all, can mean selective space improvements (e.g. roofing installation). These minor changes will improve the attitude of buyers and sellers to the place of trade and will not destroy the nature of flea markets. Secondly, it could be an improvement of existing markets accessibility or moving them to places that take into account the results of the analysis: namely, the balance of transport availability and land prices. Perhaps existing markets will be willing to relocate to places where accessibility by land transportation is not worse than it is now but land prices are lower. Thirdly, expansion of flea markets is also possible, for both temporary and permanent markets. This may imply partial legalization of existing spontaneous markets, as well as creation of a city-wide infrastructure for temporary markets.

Temporary markets can become an important element of urban event culture. Recently in Moscow, the Spring Festival was held, in which two small flea markets near the metro stations Airport and Octiabrskaya were organized. This festival can be considered as an attempt to copy the Levsha flea market, as many vendors at the festival were from there, with the intention to talk about the Levsha flea market to people that had never been interested in such events and perhaps encourage these people to visit it. However, this festival was visited mostly by the same customers that usually come to the main market.

It is also possible to establish throughout the city a network of sites for flea markets, like in some European cities, where markets are placed in the narrow streets one day a week, and on the next day everything disappears. In such a way, the urban space becomes flexible and capable of adapting to the mood of its citizens, and the city encourages more festival and holiday activities.

In socio-economic terms, it is important to preserve the availability of markets for both sellers and buyers. In this sense, a level of their development should not affect the cost of their use. This can be achieved through the introduction of differentiated rent mechanisms (having a zero rate for disadvantaged groups) as well as by collecting additional revenues (e.g. from tourism) for the city, based on flea markets exploitation. Flea markets can become important centres for tourism and recreation for visitors and city residents. This in itself and in combination with more formal points of trade around these markets can bring additional revenue to the city budget.

Econometric research has shown that flea markets are mainly located in areas containing plenty of entertainment facilities, tourist places and around weekend fairs. Since the number of registered flea markets is only five, then one can assume that to date the majority of flea markets in Moskow are informal, which occupy the tourist spots in the city. A logical and highly encouraged step would be not to displace these markets but to secure them at locations selected by sellers themselves. If sellers come daily to the same places then buyers wait for them there. It would be wrong to suppress this trading activity. Therefore, it is offered to legally secure spontaneously formed flea markets by setting a minimum preferential rent. At the same time, it is necessary to transfer part of infrastructure costs to neighboring facilities. Thus, markets will become a fully-fledged public space activity that will result in inflows of other sellers capable of paying higher rents, and flea markets will eventually become

self-sufficient. These minor changes will improve the attitude of buyers and sellers to these places of trade and will not destroy the nature of flea markets.

It is also proposed to establish a zero rent for vulnerable citizen groups. At present, preferential tariffs have been established at the Levsha flea market. However, trading can bring them a loss, taking into account that many sellers, especially the elderly often do not sell any products in a day. Such improvements would not require large expenditures by the city authorities. Enhanced flea markets could start in this way attracting tourists and young Muscovites. At the same time, the social function of flea markets will not be impaired.

Chapter 6: Ineradicable bacterium? Moscow taxi market analysis

Karolina Skvortsova

An illegal taxi sector is one of the most noticeable sectors of Moscow's informal economy. How does it affect the urban life and changes taking place therein both social and economic? In the study, the taxi market has been explored in general and by individual segments: from the point of view of competition, catchment zone, and its dependence on other areas of urban activity. An analysis and study of the taxi industry regulations in other countries enabled the researchers to form recommendations for regulating the taxi market in Moscow. In particular, it is important to take into account the findings that informal and formal taxis generally work in the same areas, except for social areas where many students and migrants live, and where informal taxis appears to be more competitive.

According to estimates by the head of the Moscow's Municipality Department of Transport and Road Infrastructure, Maxim Liksutova, only 30% of the taxis in Russia's capital city are legal. This is just the tip of the iceberg. Thus the illegal sector is approximately 70% of the taxi market. What is the structure of Moscow's taxi market? At the present time there exist three major players in the legal taxi market: individual entrepreneurs licensed to carry passengers, taxi companies that possess their own transport, and dispatch services not having their cars but distributing orders among taxi drivers. However, these players even together cannot defeat illegal taxi drivers also known as picker-uppers.

Surveys indicate that the main problem of legal taxis in Moscow is the prices. There is no single tariff grid for all registered taxis in Moscow, which is especially important for short trips. Often at the end of the trip passengers are shocked at the cost. A driver in this case has the prepared answer: "Everything is fair. It's just a counter's indication". When taking an illegal taxi, people negotiate the price before a trip starts and therefore know its cost in advance.

Another important problem for legal taxi service users are delays in the arrival of the taxi to the point of departure. A lack of capacity and road congestion leads to situations when people, after calling a cab, sometimes have to wait for even more than an hour. Illegal taxis eliminate the need for waiting for a taxi.

It should be noted that since recently the situation began changing in favour of the official taxi drivers. First of all, the emergence of electronic services such as "Yandex.Taxi "and "GetTaxi", solved the problem of having to wait a long time for a taxi. Now all of the taxis that are close to the call site can get known about the order. Service segmentation is also being strengthened. Special taxis for women are emerging, as well as for passengers with animals, for the disabled, and religious taxis where drivers are representatives of a particular religious faith. These specialized taxis satisfy a part of the specific demands.

However, despite this, Moscow is still characterized by taxi market failures, as demand for legal taxis still exceeds their supply. A gap has been formed that is filled with illegal drivers. Nevertheless, the government is strengthening the regulations in this market. The main grounds for these steps are: transport security requirements and the necessity to increase tax revenue serves. In 2013 in Moscow, the illegal taxi market turnover accounted for about $ 1 billion. Given that legal taxis pay taxes on imputed income (since it includes passenger transportation services), motor vehicle tax, as well as contributions to the pension fund, the State annually loses about $50 million from the turnover of the illegal taxi market.

Moscow taxi evolution: From the first cab drivers to mobile apps

The official date of foundation of the Moscow taxi service is considered June 21th, 1925. The first cars that appeared in the Moscow taxi car pools were Renault motor vehicles. Official taxis superseded individual cabs since they charged the fare of 35-40 Kopecks per mile, while cabmen asked 1 Ruble for the same distance. Since 1932, Soviet-made cars began to be used. However, the Second World War froze the taxi market and taxis only appeared again in 1945. In 1948, a checkered

pattern and a green light were introduced, which signalled to the passenger that the car is free. Between 1970-1990 taxi services were a profitable type of urban transport, while public transport was subsidized.

As a significant event, which affected the entire taxi market, was the privatization of taxi companies, which took place in 1992. Taxi drivers began to buy out their working cars Volga from the State transport enterprises. It was during this period that the Moscow taxi companies yielded their positions to private owners, and a new term emerged – "picker-upper". Lower prices became the competitive advantage of private drivers.

Another significant event was the abolition in 2005 of a compulsory transportation license that led to uncontrolled market behaviour. The Scientific director of Moscow Transport and Roads Institute, Mikhail Blinkin, believes that licenses were cancelled due to their senselessness: "A license, in order to exist, must denote something. For example, the ability to park on special parks and ride on special strips, and other preferences, receiving thereof can be controlled. In New York city, a taxi license is a security, which you can buy, pledge, or which can be inherited. In our case, a license gave only one right – to carry passengers for money. Provision of this service is not possible to control and, therefore, impossible to catch people that do not have a license".

However, authorities were concerned about the uncontrolled nature of the market and therefore, on the initiative of Moscow's mayor, Yuriy Luzhkov, development of the law regulating the city taxi market began. This decision was related to the increasing clashes between legal taxi drivers and private car owners. The main ideals of the law were made public in 2005, and it was finally approved in 2008. The essence of the law was to create a special common register of carriers that would include, on a voluntary basis, all the firms that meet certain standards. The drivers of "Moscow City Taxi" have been obliged by this law to have a driver who has at least three years' experience, know Russian well, know the city, pass an annual medical examination and every five years a psychiatric examination, have a visible plate with their picture and information about them self, a price list and company contact details. All the cars have to be equipped with an electronic taximeter and cash registers. Those taxi companies as well as individuals, who were to enter into the registry, would operate under the name "Moscow City Taxi", which would provide them with certain privileges and preferences, such as the right to use parking places at no charge.

However, the necessary secondary legislation documents have not been passed, and this system has not started working, thus implementation of the law has failed. The law described in details the activities and requirements for taxis, but did not give clear guidelines as to what would happen if the requirements were violated.

The new mayor of Moscow, Sergei Sobyanin, drew attention to the unsolved problem of the taxi market in late 2010. He began to examine issues and propose various initiatives regarding the availability of parking places at stations and airports only for legal taxis, as well as the opportunity of using dedicated lanes for public transport. However, this idea was perceived critically, since a large number of taxis would create serious problems for public transport.

However, some of the measures and initiatives were implemented. First of all, the taxi service licensing system was revised. By the spring of 2012, informal business activities of taxi drivers became punishable by a fine of between 2-5 thousand Rubles for individuals and 40-50 thousand Rubles for legal entities.

While administrative regulations remained not very effective, the emergence of electronic services, such as Yandex.Taxi, GetTaxi, inTaxi, Wheely and Uber has had a great impact on the market. They started solving the problem of rapid car submissions, thereby displacing the illegal drivers. A characteristic feature of Moscow can be called the high popularity of smartphones for ordering. Currently, around 10% of the residents using taxi services, when calling for a car, use mobile applications. Over the first five months of 2013, the service Yandex.Taksi processed 1 million orders which was five times more than over the same period of the previous year. Currently Yandex.Taxi works directly with the 15 largest taxi services and with more than 80 companies through its partners. The total number of cars that are connected to Yandex.Taxi service amounts to 6 thousand cars.

About 2 thousand drivers are permanently connected to the service. Orders are carried out by those drivers who are in a radius of less than 5 Km away from the customer. According to Yandex.Taxi, the average time of car provision is only 12 minutes. For comparison, the average time an ambulance arrives in Moscow on an urgent call is 13 minutes. The Yandex.Taxi service does not possess its own cars; it only performs the function of dispatching, processing and fulfilling orders.

At this moment, supply and demand in the Moscow taxi market are distributed unevenly. Legal taxis are gaining momentum: in April, 2014, 40 thousand licenses were issued. The number of taxis in Moscow has reached the level of New York City. According to the Moscow Department of Transport, to meet demand the city should have 50-55 thousand licensed taxi drivers.

International experience in taxi regulation

It seems to be interesting to examine the experiences of regulation of the taxi markets in major cities around the world. In all the large metropolitan areas there exist powerful legal taxi systems. A huge contrast to the situation in Moscow is that in other world capitals there are many more stringent measures are applied to combat illegal taxis. Illegal car drivers not only pay high fines but in some cases may be jailed.

One of the most thought out taxi systems in the world exists in London. To become a black cab driver, who is allowed to take passengers, it is necessary to pass a medical examination and pass an exam regarding the knowledge of London's streets and attractions. Since 2002, the campaign "Safer Travel at Night" is in London, which promotes legal taxi service. Citizens are being kept informed about the dangers of travelling in unregistered taxi cars focusing on the non-professional skills of drivers. This has brought significant results which include the number of crimes associated with illegal taxi drivers has fallen twice over 8 years.

In 2002 in London, the Transport Operational Command Unit was established, which keeps count of drivers that have been arrested without a license. Every year hundreds of people are caught with this offence. Most often illegal taxi drivers are caught when they pick up a disguised policeman, or by simply advertising their services.

In New York, all taxis are divided into the cars having a special license (medallion cabs, the famous New York yellow taxis) and ordinary cars (livery cabs), working only through telephone orders. But in early 2011, New York City Mayor, Michael Bloomberg, proposed to allow that phone taxis deal with street orders because yellow cabs, willing to earn, are focused on the lucrative areas of Manhattan, and almost do not visit other areas. Despite the large legal carrier market in New York, there are also plenty of illegal taxi services, who can pay a fine of $100 if they are caught.

In Los Angeles, illegal taxi drivers are fined up to $1,000, but they can also be imprisoned. As well, a car might be confiscated for 30 days, and at the end of this period, a driver will have to pay an additional fine of $1,000 to receive his vehicle.

In Hong Kong, taxis are subject to a strict zoning system, invented back in the 1960s with the colonial administration: each area is assigned its own taxi colour. This is done to ensure that drivers are not flocked in the centre for easy profit, while leaving other areas unattended. For instance, green taxis operate only on mainland New Territories, while blue ones on the Lantau Island. Official licenses were abolished in 1998 but the number of carriers since then has not changed. Thanks to this zoning system it is easy to recognize an illegal taxi (white card). For infringers, a fine is set up from 5 to 10 thousand Hong Kong dollars (about 650 and 1,300 dollars USA respectively). One can also be imprisoned for 3 to 6 months, or lose the automobile license for six months.

In 1990, Stockholm went through an interesting experience of taxi service deregulation. Cancellation of restrictions on the number of taxis in the city led to a decrease in the level of drivers' incomes and forced many to resort to tax evasion. Tariff regulation was also abolished. As a result, a wide dispersion of tariffs came out without any apparent difference in service quality. Also, stringent licensing criteria were cancelled; this in turn lowered the drivers' level of training and led to frequent cases of robbery. As a result, a market pricing mechanism has been established but overall outcomes are rather controversial. In particular, the demand for taxis being caught just on a street has reduced.

Under public pressure, the government in Stockholm, once again in 2012, began to consider measures of restoring a control on the taxi market.

In Moscow, despite the ongoing state experiments, the problem of illegal taxis remains unresolved. To reform this sector, it is important to understand how the taxi service is functioning, what the structure of supply and demand is, and how dense the concentration of taxis in the city is.

Econometric study of illegal taxis in Moscow

The study objective was to identify the socio-economic and cultural factors influencing the concentration of illegal taxis. To understand what measures of industry regulation will create a thoughtful, well-developed and convenient taxi market infrastructure in Moscow for consumers and for taxi drivers, it was necessary to comprehend market's internal structure.

An econometric study was conducted that examined effects of several explanatory variables on the concentration of taxis (dependent variables). The following three proxy variables were used as taxi concentration indicators: the number of illegal taxis found outside of supermarkets, the number of taxis outside night clubs, and the taxis' profits. To estimate the concentration of taxis, data was collected by official taxi companies. A field observation was conducted to assess the number of taxis outside of the night clubs and supermarkets. This data was revised taking into account data from the Moscow Department of Transport regarding proportions of legal and illegal taxis (the research was based on the ratio of legal to illegal vehicles as 1:3). In addition, profits were estimated for both legal and illegal taxi drivers, taking into account the average trip duration and the average tariffs. Average tariffs for legal taxis while considering the existence of different taxi classes ranges from 500 to 1,000 Rubles, not accounting for trips to the airport. According to Yandex.Rabota, a legal taxi driver earns on average between 51,000 to 58,000 Rubles per month. Profits that are generated by legal taxi drivers in different areas depend on the number and concentration of taxi drivers. Calculations showed that the largest profits are generated in the region of Yakimanka. Private (illegal) drivers earn about 40,000 Rubles a month working inside the city, and between 70-100 thousand Rubles when working at railway stations and near airports.

The study did not include data regarding such important (from the point of view of taxi concentration) places as airports. The analysis showed that the taxi market at airports can be considered as too closed, since very often airports work with only one or two official taxi companies.

As explanatory variables that affect the concentration of taxis, 50 indicators from the state statistics database were used, which cover such important areas as trade, industry, and finance. Indicators have been found for 125 Moscow districts. Among them, indicators were used such as incomes of local budgets, the number of sports facilities, the number of cultural institutions, the average wages of workers, migration growth rate, the number of crimes per 10 thousand inhabitants in the district, the district industry rating, and others. All variables were grouped in accordance with the impact of a particular sphere. As a result, indicators were distributed among trade, cultural, industrial, sports and entertainment zones, a zone of migrants and a student zone (as there is a concentration of hostels and campuses), and the area of business concentration.

The study investigated the relationship between the concentration of taxis and consolidated groups of variables.

The main conclusions of econometric analysis are the following:

- Informal taxis are generally interlinked with formal ones and are concentrated in the same zones
- Informal taxis show a high concentration in the areas of supermarkets and shopping areas. This is partly explained by their peripheral location: getting to them by public transport is not always convenient. Thus, supermarket planners should probably consider the necessity for space allotments for taxis to park
- The variable migrants' areas and student areas showed a negative correlation with taxi concentration. It can be assumed that in these zones informal taxis are acting more actively by offering more flexible and attractive prices. Migrants tend to live in poorer areas where

cheaper informal taxis or public transportation is used. It is worth noting that often migrants themselves work illegally as taxi drivers.

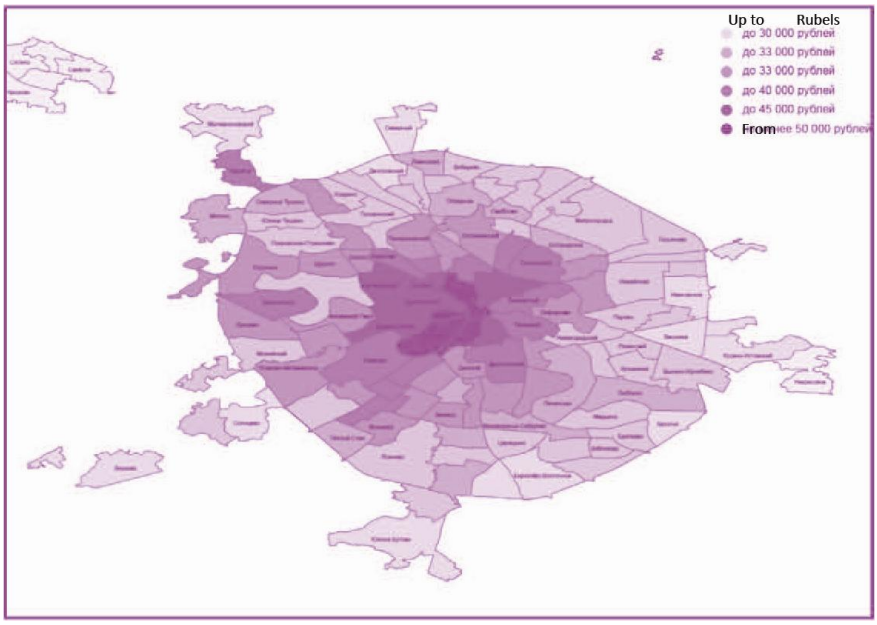
- The growing number of migrants in Moscow in this way increase the number of illegal taxi drivers.

It was discovered during the field study near the MSU student hostel that students often use informal taxis. This happens mainly due to delays in public transportation. When cooperating in small groups to go to the university, a price for such a trip becomes comparable with that of using public transport. During the interview with one of the "picker-uppers", who works in the area near to the student hostel, it was found that illegal taxi services know perfectly the local transportation market. He noted that, despite the administrative measures taken by local authorities, there are still a lot of illegal immigrants in these areas, and competition for passengers is growing.

As for taxis standing outside of the night clubs, there is a high concentration of illegal taxis there. Virtually the only possible means of transportation at night clubs are taxis. Analysis of the infrastructure factors showed that taxis are largely linked to the metro stations. The results of the parallel study, which explored relationships between transport infrastructure and the informal economy, have shown that informal taxis were positioned near all of the metro stations under study.

Profit generated by taxis and calculated for distinct regions, also seems to be an important endogenous variable (see the following Figure). This indicator correlates with the variable area of business concentration. It could be explained in a simple way: citizens in wealthier areas often use formal taxis. In addition, the parameter, entertainment zone, also has a positive impact on taxi profits. For clarity of the results, data was plotted on a map, and the center of Moscow city turned out to be the location of greatest concentration of taxi profits. This is not surprising as it is here the main business activities as well as entertainment venues are focused. The least profitable areas for the taxi drivers, as expected, appear to be social areas.

Figure 12: Taxi profitability by Moscow districts



Source: analysis by the study group, 2014

Recommendations

If the aim is to have a transition of informal taxis to the legal segment, it is necessary to change the market infrastructure, and create incentives for drivers to obtain licenses. In the opinion of the researcher, pilot projects for taxi regulation on the Moscow market are necessary, which will assess the effectiveness of the proposed measures. Data on the concentration of taxis throughout Moscow districts should also be considered when preparing such projects.

Within pilot projects, it is possible to undertake the following measures:

- Data on the low concentration of legal taxis in student and migrant areas and information about the strong presence of illegal taxis in these areas can serve as a basis for changing the public transport routing grids, and the introduction of special routes, especially in the morning and evening rush hours, and creating new, more economically efficient services (economy class buses and taxis, etc.).
- The concentration of illegal taxis near night clubs stimulates the creation of special parking places for legal taxis in those areas. It is also possible to set up terminals thereby one could quickly call a taxi. Pricing policy also plays an important role: legal taxis outside the clubs often overcharge, that gives room for illegal activities. Introduction of uniform tariffs for short trips by legal taxi services could be one of the solutions for this problem.
- Interdependencies between taxis and subway stations suggest that when designing new stations, adjacent areas and road infrastructure, one should take into account the necessity to provide space for taxis.
- Data on the concentration of taxis outside of supermarkets suggests that there should be a special large parking space for legal taxis created, as well as information points and boards for passengers, and separate passenger boarding and deplaning areas.

Conclusions

It might seem that an illegal taxi is an undefeated city bacterium. However, in any living organism (and a city is also a large organism), there are both useful and harmful bacteria. It is necessary to understand and distinguish one from another. Illegal taxis can be seen as useful bacteria that help to make short and quick trips, but are harmful bacteria when they are unable to provide standardized services, which reduce the security and affect the image of the city. When a body is affected by bacteria and symptoms are developed one should not forget to treat the cause not only the symptoms. It is therefore necessary to understand in what cases the illegal market is able to solve problems that cannot be handled by legal means. And before trying to get rid of it, it is necessary to find a replacement. Any changes to a megacity organism are painful in the short term but sometimes in the long term the results are worth it. We are currently on the right track, as by recognizing the problem is half the success towards its solution.

Chapter 7: Radiance from under the ground: The illegal gambling business in Moscow

Dmitry Surkov

After an official ban in 2009, the gambling business in Moscow has not disappeared. Illegal casinos and slot machine halls continue to operate throughout the city, having moved from the sphere of the formal economy to the informal. Data analysis of online resources, interviews with experts and field research has helped identify the current situation regarding Gambling. Econometric analysis of the statistical data and the GIS data processing enabled the researcher to identify the key patterns in the geographical placement of illegal casinos in Moscow. This paper concludes by presenting possible scenarios of regulation for the gambling industry in Moscow.

There are a great number of casinos that work simultaneously in Moscow; in 1996 there were about 70. Since that time, the city administration began to restrain the business and the number of casinos in the city reduced to between 20 and 40. The Moscow metropolitan casinos with a few exceptions had a high level and a variety of services. Some of them were justly considered to be the best in the world.

The Gambling market in Russia in 2008 was estimated by Price Waterhouse Coopers to be worth $3.6 billion. In 2008, the budget of Moscow city received about 6 billion Rubles in taxes from the activities of casinos and slot machine halls.

In 2009, a ban on gambling activities was put into force throughout the Russian Federation, except for four designated zones. After that, the gambling industry has transitioned from being loosely controlled to becoming uncontrollable. Casinos and slot machine halls continued their activities in the semi-underground, under the names: Internet cafe, the stimulating lottery, etc. or underground in private apartments and under great secrecy conditions. Law enforcement authorities have noted that after the ban on gambling had been put in force, the number of computer clubs in the capital city rose by about half. In early 2010, market participants informally admitted that up to 90% of the gambling establishments in Moscow continued working in some form or another.

The situation, according to experts, changed for the better after the criminal liability for the organization of illegal casinos was introduced in the summer of 2011. Despite this, the deputy chairman of the State Duma's Committee on Security and Anti-Corruption, Alexander Hinstein, considers the situation of illegal gambling activities unsatisfactory and recognizes the struggle to curb gambling as inefficient: only 40 people were brought up on criminal charges for gambling throughout Russia. Out of the four gambling zones, only the one in the Krasnodar region is actually functioning. Within its territory there exist three casinos, which are the only places in Russia where you can legally gamble in a casino.

Objectives and research methods

The study goal was to determine the spatial distribution of illegal gambling business's in Moscow and to offer recommendations for the stabilization of the situation in this sector from the standpoint of the urban community. The study objectives were to determine the genesis of the illegal gambling business in Moscow and evaluate its current impact on the urban environment, to identify the environmental factors that affect illegal gambling spatial distribution as well as to offer solutions and recommendations for future work on addressing the gambling problems within Moscow city.

While working on the study, qualitative and quantitative approaches were used. As part of a qualitative approach the study object, illegal casinos in Moscow, were addressed with a multidisciplinary methodology SPACE, SPACE stands for Society, Policy, Architecture, Culture and Economy. This technique was formed as a part of the educational course by the Strelka Institute and put into operation thanks to the Institutes educational program's directors Anastasia Smirnova and David Erickson.

To assess the sociological factors, a small survey with a sample of about 120 people was conducted by the All Russian Center for Public Opinion Research and the survey data was analyzed. The background as well as reasons for the introduction of the Federal Law № 244-FZ, were studied in detail. The political factor was assessed by studying the lobbying by various political forces and the *heavyweights* in the gambling industry. To evaluate the architectural and cultural component, about 20 former casinos and slot machine halls, were inspected and the changes necessary to enable their functional reorientation analyzed. The economic aspects consisted of an evaluation of the modern *supply chain* changes in comparison with the former structure of how the legal industry functioned. Also, an attempt was made to assess how these changes have affected employment conditions and related industries.

A quantitative approach was applied in the study; it consisted of econometrics analysis and an analysis of GIS data. Study limitations include examining the illegal casinos within the old Moscow borders (before its enlargement in 2010), as well as difficulties in obtaining accurate information on the current location of illegal gambling establishments. As experts in the subject area, various people were interviewed such as the vice-president of the Association of Gambling Business, Vladimir Ilyushin, an active opponent of illegal gambling Pavel Sychev, a member of the Young Guard of United Russia and the deputy of the Troparevo-Nikulino district's council, as well as the former owner of legal slot machine halls, who wished to remain anonymous.

Sociology (S)

Sociological surveys conducted by the All Russian Center for Public Opinion Research showed that 12% of Muscovites know about illegally operating gambling establishments. From surveys conducted independently, it became known that only 12% have a negative attitude towards gambling, the others are either neutral or positive. 45% of respondents expressed a positive attitude towards President Putin's idea of organizing a gambling area in the annexed Crimea. 70% of respondents suggested that the legalization of gambling would bring financial and other benefits to the state and business. 26% of respondents believed that gambling has negative consequences for society. 18% of respondents confessed that they would attend casinos more often if they were legalized.

The social consequences of gambling activities were not considered by respondents as acute. Rather, people see more advantages than drawbacks. First of all, it concerns the municipal budgets revenue base. Only a quarter of respondents recognized the negative effects of gambling activities that are related primarily to the stereotypes of its presence in Russia until 2009. In particular, the ubiquity of unsightly stalls has been noted, also how it attracted teenagers, and the fact that slot machines were tuned to benefit their owners.

Policy (P)

The history of active lobbying for changes in the functioning of gambling establishments, and the conflict of interests around it, led to a prohibition of gambling activities. It started in 2005, when four of the largest market representatives decided to monopolize gambling and demanded increasing the requirements for all participants. In response, a number of representatives of the political party United Russia immediately criticized this kind of innovation, accusing the major networks of an attempt to monopolize the market. In addition, the authorities began to emphasize the negative image of gambling, which is a dependence on which, according to them, appears to be as harmful as alcohol. In 2006, due to the sharp confrontation between the two parties, the former head of the President administration and the head of the President's Expert Department, Dmitry Medvedev, decided to change the order of conducting gambling activities, while not standing behind either of the parties.

By July 1st, 2009, all gambling establishments on the territory of the Russian Federation had to suspend all of their operations, and legal gambling activities was permitted in only four gambling zones, namely Azov-City which is on the border of the Rostov Region and Krasnodar Territory; Amber in the Kaliningrad region; Siberian Coin in the Altai Territory; and the Primorye in the Primorye Territory. The main motive of such a geographical shift was moving gambling establishments out of residential areas into inaccessible public areas.

As a result, over a five year period, the following situation was observed:

1. Moscow lost a significant amount of the tax on imputed income from gambling activities: in 2008, the city budget received about 6 billion Rubles as a tax on casino and slot machine halls operations. Over the past five years in Moscow 523 illegal gambling establishments have been found. The basic calculations are as follows: the minimum requirements for the gambling establishment opening are 70 slot machines and 12 gambling tables. A machine makes a profit of 3.5 thousand Rubles per month, and a table makes 100 thousand Rubles a month. The amount of taxes by 523 institutions would have amounted more than 9 billion Rubles. In addition, all industries that are ancillary to gambling were reduced and have partially transferred their activities into the informal sector, which has also led to decreases in the budget revenues.
2. The vast majority of the major players in the domestic gambling industry withdrew their activities abroad (to Belarus, Germany, Romania, Georgia, Armenia, USA and so on).
3. The police recognize the fact that over 90% of gambling establishments in Russia (including Moscow) in some form or another continued to operate using loopholes in the legislation.
4. Gambling has become more closed and therefore has become a criminal activity. In place of the open marketing system, the *loyal customers* system came into being, that also negatively affects the development of competition and the number of potential players, which, because of limited access to illegal establishments, have decreased.
5. Unfinished criminal case regarding the backing of illegal gambling establishments received wide publicity but only less than 50 entrepreneurs incurred a real criminal liability, 75% of which were conditional (Hinstein). The most notorious example of this activity was regarding a case of prosecutors from Moscow’s suburbs. The case lasted three years (from February 2011 to February 2014), until the Russian Prosecutor General Yuri Chaika closed it due to: "..the lack of any grounds while only indication of illegal business being available". The case, in fact, had a conflict of interests between the Investigative Committee of the Russian Federation and the Prosecutor's Office, and a decision on it was not juridical, but political.

Architectural studies (a)

Architectural aspects of the study have been represented by the analysis of 17 premises formerly used as casinos. The analysis only partially covers premises of the former gambling establishments in Moscow but gives an idea of current trends in this field. Most of the former gambling establishments have changed their functionality and are used by other service facilities. They have mostly become restaurants, shopping and entertainment venues (including night clubs), as they required only minor alterations and the demand is mainly ensured by their convenient locations in the city center with a high transport accessibility. A refocusing option is to place bookmaker offices or totalisators in the city center, which are modern equivalents of legal casinos or slot machine halls. Some of the casinos have even preserved their appearance (see table 3).

Table 3: Changing functions of premises previously used for gambling activities

Address	Prior changes	After changes	Retaining casino's visual features
Presnensky Val St., 14/1	Casino Zolotaya Podkova	Cultural and entertainment center Samolet	-
Mir ave., 115	Casino Zoloto partii	Demolished	-
Izmailovo shosse, 71, build. 3B	Casino Wels Fargo (the hotel Izmaylovo – Vega)	Restaurant Stary dvorik	-
Sheremetyevskaya St., 2	Casino Capitalism (cinema Habana)	Demolished (Instead, Moscow youth center Planet KVN has been built)	-
Zemlianoy Val str., 26	Casino Bor House	Restaurant-bar Hot dog's bar & grill	-
Begovaya str., 22	Casino Royal	Banquet hall Royal Hall	+
Kudrinskaya Sq., 1	Casino Beverley Heals	Restaurant A-One Café	-
Yamskoye Pole 3rd St., 15	Casino Golden Palace	Night club / concert hall Golden palace	+
Marksistskaya St., 38	Casino Cristall	Trade center Galery Crystall	-
Pushkinskaya Sq., 2	Casino Shangri La	Restaurant Chayhona №1	-
Novy Arbat St., 21	Casino Metelitsa	Restaurant Casino café, concert hall Metelitsa	+
Novy Arbat St., 21	Casino Arbat	Restaurant Tropicana, Fight club Arbat, Art-gallery Art-21	+
Novy Arbat St., 15, build. 1	Casino Corona	Restaurant Bookmaker Pub (bookmaker office), Entertainment center Corona	+
Shchelkovo shosse, 4	Cultural and entertainment center (Slot machines hall) Elite Hall	Restaurant Khinkalnaya	-
Sirenevy Blv., 31	Slot machines hall Vulkan	Bowling club	-
Pervomayskaya St., 77, build. 2	Slot machines hall Vulkan	Communication salon Euronet	-
9th Parkovaya St., 15/68	Slot machines hall Fan fan	Flower shop	-

Source: Author's field research

Since underground gambling establishments in Moscow are more difficult to access than in other Russian cities, an internal structure of illegal casinos was studied by the author during field research in suburban town Odintsovo. Illegal establishments operate here virtually openly, in public places, including locations next to the train station. Signboards above the entrance have typical slogans like bookmaker office or internet cafe.

The author visited the two halls of slot machines next to the Odintsovo train station. One of the premises instead of a signboard had merely colored lanterns as hints to the gambling nature of the establishment. Another hall was acting under the guise of bookmaker office, and all its windows were covered with large posters depicting football players. From an interview with the cashier of the first establishment we found out that the locals and the police tolerate such activities and it is a question to the law enforcement authorities as to why they do not close them. Guards at the entrance were absent and anyone could walk inside. All slot machines were occupied by slightly marginal and kind of gangster players, who were almost not interrupted by the emergence of a stranger namely the author of the study., There was nothing more in the room except for slot machines and a cashier's desk, and no windows and no clocks, so that a player could not figure out how much time he spent here.

Another amusing detail is the preservation of complementary snacks traditions, albeit in a much less presentable form. It is important to note that in the large cities, and especially in Moscow, the illegal gambling businesses are controlled more strictly and it is virtually inaccessible to *accidental* people.

Econometric and GIS data analyses

Data on the geographical distribution of illegal gambling establishments were received from several sources. Experts were interviewed and information on internet sources was also used (including website gdecasino.org, a public platform for fighting against illegal gambling activities). The most comprehensive data were provided by Pavel Sychev, the head of the federal project Agents from the Young Guards of United Russia. Findings are representative only for a part of the territory of Moscow, limited by Central, North-Eastern, and Eastern areas, and partially by Northern and South-Eastern areas – the territory where the project Agents is acting most actively (see the following figure).

Figure 13: Distribution of illegal casinos in Moscow (the darker the area, the more illegal casinos are located there)

Source: analysis by the study group, 2014

Econometrics was used to identify factors affecting the placement of objects of illegal gambling businesses. The number of gambling establishments was compared to socio-economic and infrastructural characteristics of the districts of Moscow. As a source for socio-economic data, 43 indicators were used which were taken from the website of the State Statistics Committee, as well as other official sources. Factors were identified that have a positive or negative relationship indicated by beta coefficients (outcomes of regression analysis) with the distribution of illegal gambling, and determine their location in these areas (see Table 4).

The Econometric and GIS data analyses on socio-economic factors identified the relationships between the placement of illegal gambling establishments and consumer service points, as well as the headquarters of foreign corporations. The study showed a negative dependency on the placement of gambling points in the areas inhabited by foreign migrants. All these factors lead to the conclusion that owners of these establishments, for anonymous business development, prefer tried and tested residential and commercial districts in the center and relatively prosperous areas in the east. This conclusion contradicts the initial hypothesis of casinos dispersal from the center, when they were legal, to the periphery.

Table 4: Infrastructural factors having a positive or negative correlation with placement of illegal gambling facilities

	Illegal gambling establishments
Market squares	0.33***
	(0.07)
ATMs	0.04***
	(0.01)
Temporary events	0.05**
	(0.02)
Hotels	0.09**
	(0.03)
Kindergartens	-0.04*
	0.02
Constant	1.01***
	0.07
Number of districts	125
R2	0.41
Normalized R2	0.39

Standard errors are given in parentheses. R2 is the determination coefficient (proportion of explained variance).
* p < 0,05, ** p < 0,01, *** p < 0,001

The analysis of infrastructural factors affecting the placement of illegal gambling activities, has revealed the dependence of their location on the market squares (the places where various types of markets are located), ATMs, places of temporary activities, such as festivals and hotels. The factor of market areas can mean the specific nature of interactions between gambling establishments' owners and players, some of which could be market sellers, this factor is more important for non-central areas. ATMs are used as cash means to gamble in illegal casinos. The factor of proximity to places of temporary activities may indicate the fact that gambling establishments located in such places are also of a temporary nature, being organized on the days of the events and only making earnings on these days like other sectors of the informal economy, on increased customer flows. Hotels also seem to be a potential space for illegal gambling placement.

Duality of the analysis conclusions can be attributed to the difference in segments of the gambling industry. Apparently, a large proportion of illegal gambling has the same geography as it had before it was made illegal in Moscow. The elite segment of gambling establishments remains in the center, where it was previously located, only now it has moved underground. The owners of these establishments prefer a more comfortable and secure environment for business. They are focused on their loyal customers who are willing to pay a lot but, at the same time, expect the appropriate level of service: high quality urban environment, a safe place to park their cars, and so on. It was also observed that in the Eastern part of the city there was a proliferation of more affordable and probably temporary gambling establishments. While in the center there are casinos with their inherent entourage, on the edge those are slot machine halls like the author visited in Odintsovo, which focus on less affluent customers and greater throughput. These establishments are not as accessible as in Odintsovo but problems with regulation of their activities are rather severe in all the districts of Moscow.

Finally, another element of econometrics and GIS data analyses was a combined comparison of all of the informal sectors. A high correlation (R2 = 0,393) was revealed between illegal casinos and prostitution, which implies that it is necessary to find simultaneous solutions to both problems by city authorities.

Recommendations

The obvious solution of the problem is a more clear approach to the definition of gambling and the equipment used in gambling activities. There is no doubt that it is necessary to increase the penalties for the organization of such activities. This would lead to lessening the number of illegal establishments but the fundamental problem will still not have been solved.

Given the more than modest results of the state program of the creation of four gambling zones, from scratch, in remote areas of the country and the flourishing of illegal gambling businesses, it makes sense to search for new solutions. One of them is the creation of a gambling zone near Moscow. Such a zone would certainly be successful if tax payments to the budget were also included. The authorities would be able to control it, which would guarantee a high safety of players. This area would be a serious competitor to illegal gambling and would lead to the shrinking of the informal sector. As an example of such a solution is the US Atlantic City, which is a town located on the east coast close to both New York and Washington.

Another solution would be creating legal gambling zones in Moscow city. It would be possible to organize a gambling zone based in the hotel Izmailovo at the east of Moscow. This solution seems to be a compromise for the state, the players and the business for a number of reasons:

- The problems with the territory already having an increased activity of illegal gambling establishments, would be solved
- The hotel Izmailovo in the past had casinos and slot machine halls
- Hotel occupancy rates, which are now low, could increase if using casinos as elements of tourist interest.
- Hotels are located at a distance from residential areas and the city center, so that the social impact of a zone would be minimized.
- The place has all necessary infrastructure facilities including transport.
- Hotel Izmailovo has been marked as a place with increased sex industry activity, which is also important to consider when making decisions about the legalization of gambling zones.

A third potential solution could be organizing a gambling area within the New Arbat Street, as having a central location and, therefore, a greater demand for gambling activities. The New Arbat still remains a gambling industry location but it is currently represented by only bookmaker offices but not by casinos. In relation to the area of Izmailovo, Novy Arbat is famous for its traditional accumulation of gambling businesses. Its main drawback is its location; it is in a residential area in the city center.

Further research on this topic should be aimed at the study of the experience of other cities, where special areas exist in relation to legalized gambling activities. Comparisons are necessary with the experience of cities having gambling zones in the city centers or in the areas around hotels, as well as the development of the best solutions for the adaptation of the international experience to the conditions of Moscow.

Chapter 8: Indulgent Moscow: Sex Industry in Moscow

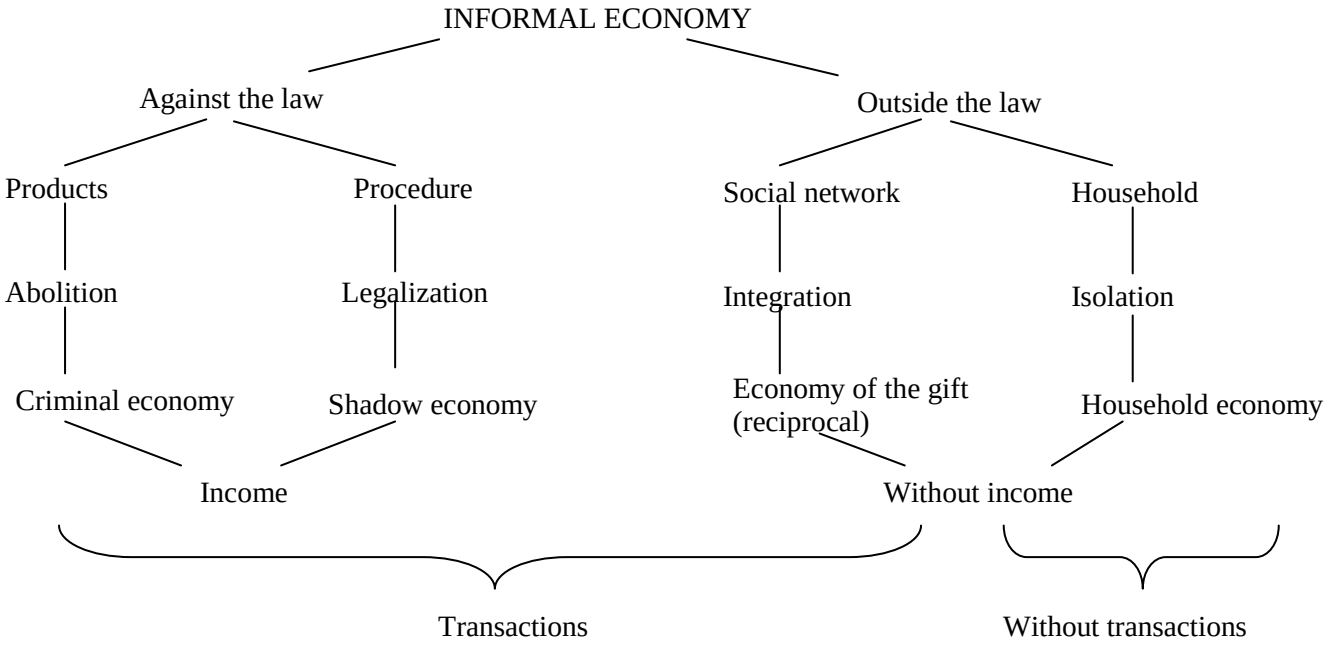
Alexandra Druzhinina

Prostitution is an integral part of life in any major city. Different countries have different approaches to the regulation and control of this phenomenon. In most countries it is beyond the scope of the law; at the same time, in some countries a trend can be observed towards its legalization. In our research, the study of this subject has been narrowed to the market of sex services in Moscow focusing on female prostitution. The issue has been studied not from the standpoint of the layman but from the position of the economist and city manager. The regulations of international experiences have been studied and analysed as well as the situation in Moscow and possible scenarios for its development.

Prostitution as an Area of Informal Economy

Let's define the place of our study in the framework of the conceptual apparatus of the informal economy. For this purpose we will turn to the classification scheme of the informal economy which was proposed by S.J. Barsukova in her course of lectures.

Figure 14: Classification of the informal economy elements



Source: S.Y. Barsukova. Informal economy: a course of lectures.

A fundamental point should be noted: the informal economy is not regulated by law. According to S.Y. Barsukova, informal economy can be divided into two parts. The first one is: *against the law*. This is an activity which is contrary to the law. This concept embodies the shadow and criminal economies. The difference between them is that the shadow businesses produce what is allowed by state but in violation of the law, and criminal business is the production of goods and services prohibited by state. Criminal business includes prostitution, production of weapons and drugs. It is worth noting that the state of the Russian Federation is trying to legalize the shadow businesses and destroy criminal business. Thus, the boundary between the shadow and the informal economy passes through legislation. There is a striking example on this subject in the article by Barsukova: *If prostitution in Russia is legalized, all the pimps will be divided into two categories – ordinary businessmen and shadow ones manipulating with taxes. In the meantime, all this is the criminal economy*.

The second part of the practices of the informal economy can be described as: *outside the law*. This is an activity that is not regulated by law, but at the same time violates nothing because the law does not interfere with it. It is about home and reciprocal (exchange of gifts) economies. After analysis it can

be concluded that the sex industry usually refers to the sector of criminal economy on a par with the drugs trade, arms trafficking and gambling businesses. Within this research, the concept of the *sex industry* has been narrowed to the following: Sex industry is the provision of sexual services for money by female persons.

The sex services market is conventionally divided into the following segments:

- Individual prostitution
- Illegal brothels
- Erotic massage parlours
- Escort services

Individual prostitution and illegal brothels belong to the criminal sector, while the erotic massage parlours and escort services are fully legal. It often happens that behind these names, illegal activities in the provision of sex services are concealed.

Legal Analysis

The legislation of the Russian Federation does not contain a clear definition of prostitution; however, the courts have adopted the following definition: *systematic provision of sexual services for payment.* Prostitution within the Russian Federation is punishable in accordance with Article 6.11 of the Code of Administrative Offences of the Russian Federation. In other words, this type of activity is not a criminal offence; it is an administrative liability. For engaging in prostitution an administrative fine can be given of up to two thousands Rubles. It needs to be emphasized separately that the fact of sex services usage does not fall under any liability. However, the organization of the prostitution activity is punishable by up to 10 years in prison.

We compare the sex industry with the other elements of the informal economy (belonging to the group *contrary to the law*), such as drug trafficking, illegal arms sales, illicit markets and unauthorized taxis. Note that specialized publications that advertise services exist only for the sex industry. It is also worth noting that there is an easy access on the consumer side to the sex services. It can be argued that the prostitution market has more similarities with the market of illegal taxis. Access to illegal taxis, as in the case of prostitution, is rated as easy. No liability is provided for the use of illegal services on these two markets.

When referring to the international experience regarding the legalization of prostitution, it can be seen that exactly half of countries prostitution has been legalized in varying degrees, according to the data from 100 countries taken from the website prostitution.procon.org. In the table (see Annex 1) different countries are divided by the degree of legalization of prostitution. The following activities in the prostitution industry can be enabled or disabled:

- Individual prostitution
- Brothels
- Procuration

Prostitution regulatory modes can be classified as follows: decriminalization, criminalization, regulation. Prostitution decriminalization policy is considered as a complete elimination of articles on prostitution and related crimes from the list of administrative and criminal offenses including those offenses that are related to the exploitation of prostitutes and extortion.

Prostitution criminalization mode means that it becomes prohibited, and the activities of all participants in this sector will be prosecuted. This is applied to the prostitutes themselves, their clients, as well as those benefiting from prostitution organizing or provision of the sexual services for a fee. Mode of prostitution regulation or partial legalization admits the existence of prostitution but limits its spread through zoning (permission of prostitution activities or brothels keeping in certain areas) and/or licensing (when in certain districts a restricted number or prostitutes are becoming licensed). At the same time, there is some evidence that in countries where prostitution regulatory mode has been adopted, the experience was not very successful (see Annex 2).

Economic Analysis of Sex Services Market in Moscow

According to the Ministry of Internal Affairs in 2012 there were about 1 million prostitutes in Russia. Notwithstanding the official prohibition of prostitution in Russia (Art. 6.11 and 6.12 of the Administrative Code; Art. 240 and 241 of the Criminal Code), de facto it exists and is rather well developed, being actively advertised under the guise of dating services in print media as well as on the internet. Many websites of erotic services and video chats, whose domains are registered in other countries, openly advertise the services of prostitutes.

Expert estimations for the number of female sex workers in Moscow greatly differ. Unfortunately, studies of prostitution in Russia are not systemic in nature, so calculations given are based on expert estimates for 2001, adjusted for the new data. Thus, according to various experts, the number of female sex workers in Moscow, range from 15 to 130 thousand. Given such a wide range of opinions, it is very difficult to identify the actual number of them. According to the analysis of data from the website rusdosug.com the number of females involved in the provision of sexual services in Moscow is around 21 thousand. Apparently, this is a very rough estimate of sexual services in Moscow, as a large number of girls are working through escort agencies, erotic massage parlours, etc. According to the author's estimates, the actual volume of the sex services market in the city of Moscow is 46 thousand female sex workers. The annual turnover in prostitution industry in Moscow is, according to various estimates, from 360 to 720 million dollars.

Let us now estimate the fiscal impact of hypothetical liberalization of the sex industry. As a basis for the tax system development for prostitutes, the patent system can be taken, in which a sex worker obtains a patent for a fixed amount per month, giving her a right to provide sexual services. The estimation process assesses the potential additional tax receipts for the budget of Moscow in the case of its introduction. Suppose that initially 20% of the 46,000 female sex workers will be legalized and will switch to the patent system. Then, the average annual yield per worker, according to our estimates, will account for about 500,000 Rubles. When paying tax of 6% of the annual income, the amount to be paid into the treasury by a prostitute accounts for 30,000 Rubles. In such a way, the annual cost of a patent for a sex worker can be set at 30,000 Rubles. In that case, the additional tax revenues in the first period after the introduction of such a system will make 30,000 Rubles × 46,000 workers × 20% = 276,000,000 Rubles per year.

At present time, according to the Federal Tax Service in Moscow, the total annual amount of taxes levied on the use of the patent system of taxation accounts for 440 million Rubles. Thus, the introduction of the patent system of taxation of prostitution would lead to a substantial growth in filling this part of the city budget. However, when compared to the total budget volume of the capital city, such an amount can hardly be considered significant.

Sex Industry Clusters in Moscow

A technique for assessing the supply and demand of sexual services in Moscow applied in this study is based on the procedure described in an article published in the community Gdeetotdom on the livejournal website.

An attempt has been made to estimate the prostitution market in Moscow on a spatial dimension, by taking as parameters the metro stations and city districts. The demand for sex services has been determined by analyzing the results of searches by keywords in web search engines such as Yandex, Rambler and Google. From the tried word combinations (such as *sex services Profsoyuznaya*, *call girl Profsoyuznaya*, i*ntim services Profsoyuznaya* and so forth), the query *prostitutes Profsoyuznaya (metro station)* received the highest number of results. This query was entered in combination with the names of all metro stations. Then an attempt was made to correlate the results obtained with the districts of Moscow. If in any area there is no subway, instead of the station name we entered the name of the district. In this way, a rough estimate of the demand for sexual services was correlated.

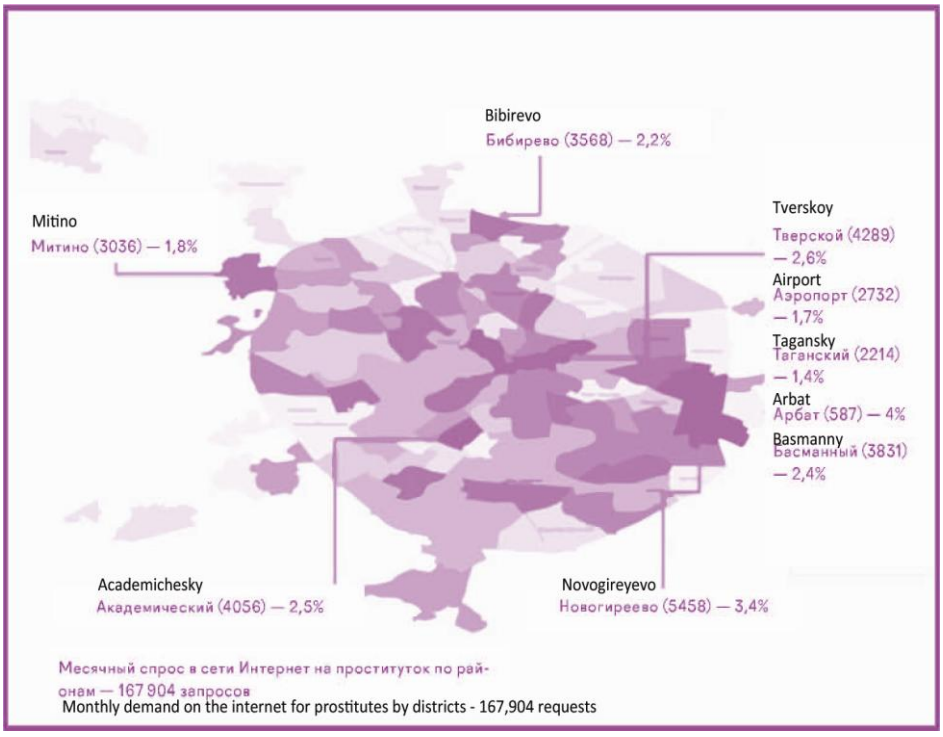
In the similar manner, the sex services supply magnitude was also estimated. Guided by the data from one of the most popular sex service websites, where there is an opportunity to find girls both by metro

stations and by city districts. Data obtained from the analysis of this website, was afterwards corrected in proportion to the overall expert estimations in Moscow, provisionally taking the supply volume of 46,000 sex workers. In this case, the number of individual prostitutes was estimated at 15,700.

Based on the econometric analysis of the data on the supply and demand of sexual services in Moscow, the following conclusions have been drawn:

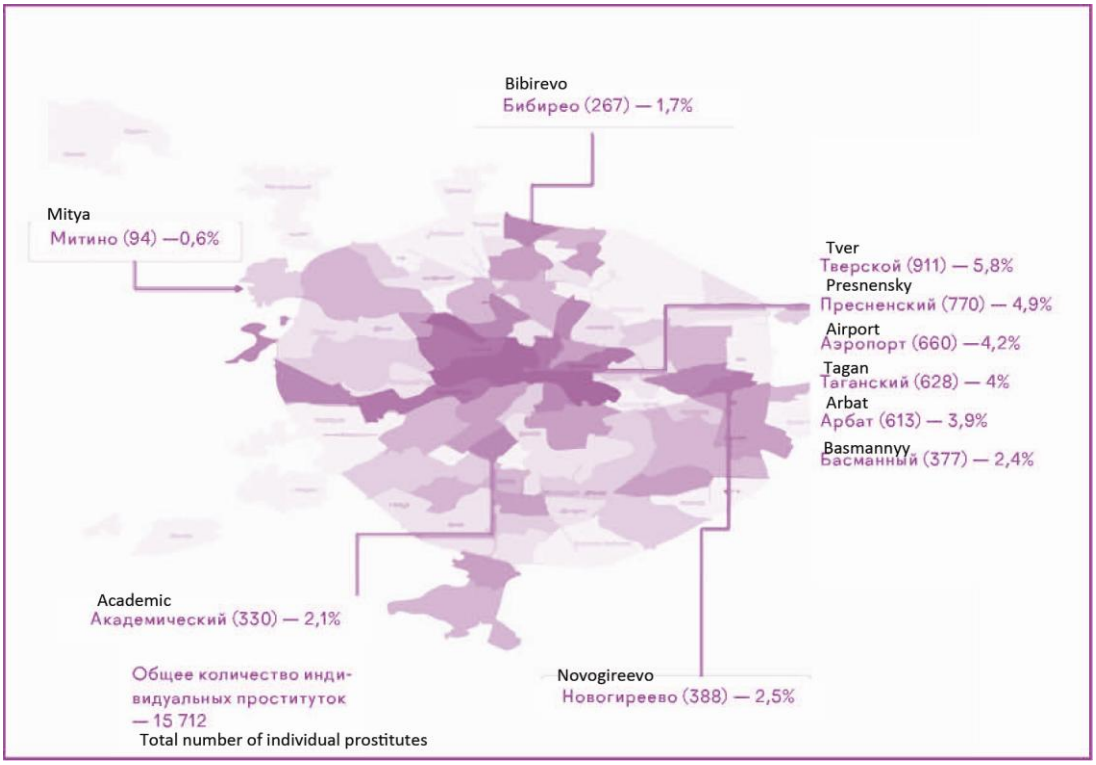
- Places providing sex services are located in close proximity to entertainment venues, such as bars and clubs – mainly in the city centre;
- Places providing sex services are located in densely populated sleeping areas;
- Sexual service provision in sparsely populated areas are located near metro stations;
- There are more sexual services sites in more prosperous areas (estimated on the average level of the residents income);
- The larger the number of migrants living in the area, the fewer the number of prostitutes

Figure 15: Results of mapping the demand for sexual services and econometric model evaluation in districts of Moscow



The Strelka Institute, Analysis by Studio Links, 2014

Figure 16: Results of mapping the supply for sexual services and econometric model evaluation of districts of Moscow



Source: The Strelka Institute, Analysis by Studio Links, 2014

Most of the clusters that were revealed during the study are located in the city centre, where there are more bars and clubs. After the results were analysed the conclusion was drawn that to a greater extent this correlation is due to the search for clients in the appropriate areas. If in the 1990s, the *points* were located on the city streets, in the 21st century they moved either to the internet or into places with the corresponding connotations (saunas, clubs, bars, strip clubs, etc.). Another significant factor influencing the location of sex services, proved to be the metro station presence in the area. Among the most *sexual* residential districts in Moscow are Mitino, Bibirevo, Novogireevo and Academicheskiy. The district Mitino should specially be mentioned, as the number of prostitutes has been precisely correlated with the number of bars and restaurants.

History of Prostitution in Moscow

As it has been already mentioned above, the red-light districts in European cities are almost the most popular tourist places. In Moscow, there had once been a district of brothels, and it was placed in Sretenka (i.e., in the heart of the city), in the area that is now emitting decency.

In pre-revolutionary Russia prostitution was officially legalized. Brothels had no signage, their distance from churches, schools and colleges had to be *large enough* (in the middle of the 19th century at least300 m).

Brothels fell into three categories: the highest (a price is up to 12 Rubles, no more than 7 people per day), medium (up to 7 Rubles, and up to 12 people per day), lower (up to 50 Kopecks, and up to 20 people daily). Prostitution was regarded as an official occupation, and brothels were taxed. Payment for services was stipulated as follows: the part of ¾ was granted to a hostess, ¼ to a girl. In 1901, the number of registered brothels in Russian cities exceeded 2,400; the number of prostitutes in brothels was 15,000, and individuals 20,000.

Here is an extract from the Brothels Regulation Rules approved by the Minister of Internal Affairs on May 29th, 1844:

"1. Brothels can be set up only with a provision of police authorization.

2. Permission to set up a brothel can only be provided to a trustworthy woman aged from 30 to 60 years of age.
3. Under 16 years of age girls are not permitted to work in a brothel
4. Hostess' debt claims on women workers should not serve them as an obstacle to their abandonment of brothels.
5. Beds must be separated from each other by light baffles or in a case of impossibility – by screens.
6. A hostess undergoes strict liability provided girl workers are extremely exhausted with immoderate consumption.
7. Juvenile males as well students of educational institutions are not allowed to attend brothels."

In the 1990s the geography of sex services greatly expanded. Here are the main points in Moscow:

1. Near nightclubs *Up and Down, Metelitsa, Carousel, Moscow, 2×2, Casino Utopia, Royal, Golden Palace, Madame Sophie* – elite brothels priced from $ 350 and up to $1,500-2,000. Age is from 18 to 28 years.
2. Near bars, restaurants and casinos, located in the hotels *Cosmos, Intourist, Moscow, Radisson-Slavianskaya, Palace*. Prices are up to $ 500. Age is from 18 to 35 years.
3. Near agencies: *The Little Prince, Lolita, Emmanuel, Zodiac, Cleopatra, Natalie*. Girls' prices between $120 - 250; any age.
4. Streets: Tverskaya, Novy Arbat, Lubyanka. Prices are from $ 80 - 200 ; any age.
5. Garden Ring. Prices are from $ 30- 50 dollars. All other options vary considerably.
6. Leningradsky prospekt, metro stations Rizhskaya, Alekseevskaya and up to the ring road. Prices are minimal, and sometimes – from a bottle of wine to $ 50; any age.
7. Area of the three Stations: the Kursk Station, Paveletskiy Station and Savelovskiy Station (the minimal option). Everything is on the client's conscience.

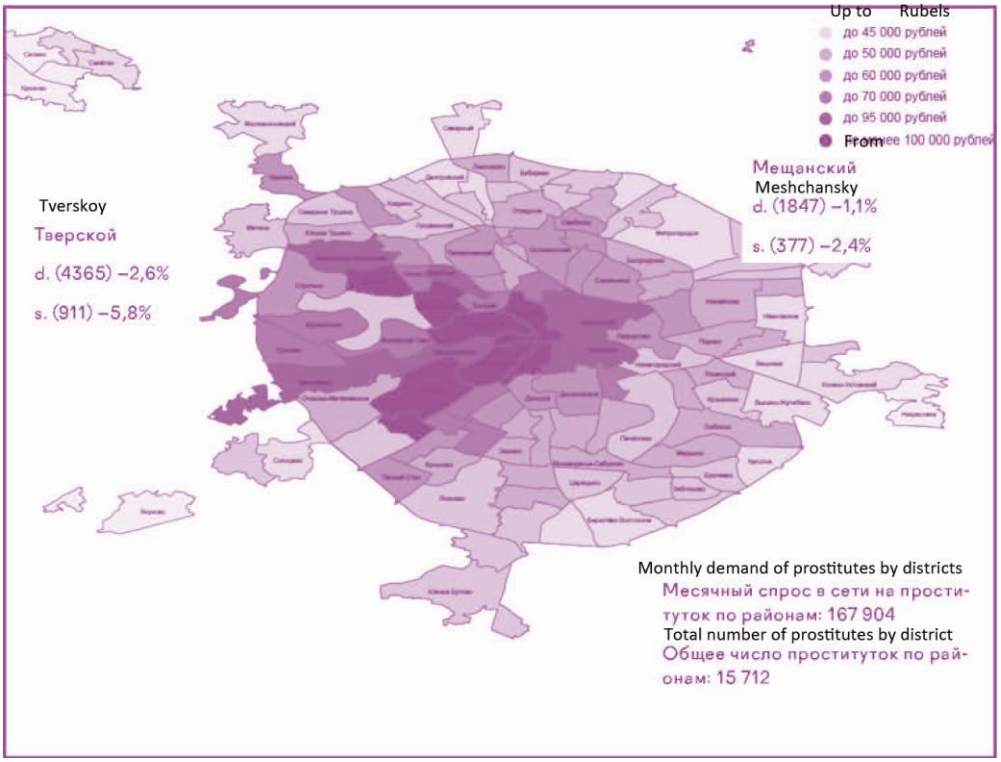
It should be noted that Russia had an experience of prostitution legalization, and a detailed legal framework of this type of activity had been developed. Brothels in pre-revolutionary Russia, as in other countries, had a central location. The central location of the Red Light districts is also in line with international historical practice. In particular, in Amsterdam, Hamburg and other cities, where prostitution has been legalized to varying degrees, these areas are located in the central parts of the cities.

Recommendations

The study has examined the possibility of changes in the regulation of sex industry in Moscow. The sociological survey has revealed that 52% of respondents are tolerant to the idea of prostitution legalizing, with 17% being in entire agreement with legalization, while 35% do not have a clear opinion on this matter. In the study, hypothetical mechanisms and consequences of the legalization of prostitution in Moscow were analysed. In particular, attempts were made to determine the optimal location for a Red light district and provide recommendations for improving the legal regulation of prostitution as a business activity.

Based on the econometric evidence, international and historical experience of the city, the most logical location for a Red light district should be one of two central districts in Moscow: Tverskoy or Meschansky.

Figure 17: Hypothetical localization of the red light districts in Moscow



Source: The Strelka Institute, Analysis by Studio Links, 2014

The following recommendations regarding possible legalization of prostitution in Moscow have been provided. First of all, it is necessary to clearly define at the legislative level the term *sex services* or *prostitution*. In our opinion, legalization can be carried out either locally (by creating a Red light district) or throughout the city (with the license system for individual prostitutes and licenses for brothels and erotic massage parlours).

Along with the right of sexual services provision for monetary compensation, new duties should be imposed on prostitutes, such as passing a monthly medical check-up. This point should be clearly stated in the law. Besides, before legalizing prostitution in Moscow, it is necessary to legally adopt a system of sex workers' rights protection, and a security system, for instance, to approve a list of services for securing their activities (alarm buttons, etc.). Perhaps it is also worth creating websites that will hold lists of sex workers holding proven medical certificates, which will significantly reduce the risk of contracting sexually transmitted diseases.

In such a way, legalization would be beneficial for sex workers both in terms of safety (from pimps and inadequate customers), and in terms of advertising. From the customer's perspective, the emergence of websites advertising safe sex will reduce the risk of contracting sexually transmitted diseases. From the point of view of morality and consequences of legalization, it can lead to either a decrease in demand for sex services (in particular, due to the rise in prices along with legalization or because of fear of being recognized upon receipt of such legal services), or to the increase in demand for given services (they are safer and more affordable) and, consequently, to a kind of degradation of society. Thus, the impact of prostitution legalization is unpredictable.

An analysis of countries and cities, where prostitution has appeared to reside on a legal field, indicates that its legalization has both positive and negative effects. A number of hypotheses about further developments of the situation have been examined. The hypothesises that have been confirmed are marked with a *plus* +, those that have been refuted – with a *minus* -; *0* indicates that the legalization of prostitution has not had any impact on the analysed indicator. The analytical data is given in the tables in Annex 2.

- Legalization of prostitution will increase the number of tourists wishing to visit the country (+).
- Prostitution legalization will increase tax revenues (+).
- Legalization of prostitution will reduce the amount of sex trafficking (-).
- Legalization of prostitution will reduce the level of crime in the sex industry, will expand the rights of women, providing sex services (-).
- Legalization of prostitution will reduce the number of victims in the sex industry (-).
- Legalization of prostitution will reduce the number of cases of sexually transmitted infections (0).

Regulation of the given industry should take into account international experiences and realities of the sex industry economy in Moscow as well as social, urban, criminogenic and other effects of status-quo conservation, its stricter regulation or, on the contrary, its liberalization.

In conclusion, a quote of a Scotland Yard's police officer: "You've got to be careful about legalizing things just because you don't think what you are doing is successful"

Part II: Expert opinions about the informal economy and its role in a city

Chapter 9: Russian informal economy structure and its relationships with the urban environment

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The informal economy is a multidimensional concept that includes activities that are simply not taken into account by statistics and illegal activities. The main volume of the informal economy in Russia relates to shady activities of legitimate companies. The visible part of the informal economy in a city is formed as enclaves which, when using a thoughtful approach to their transformation, can be organically fitted into the urban environment.

The very concept of the informal economy was introduced in the early 1970s by the English sociologist and anthropologist Keith Hart. He studied broad strata of small entrepreneurs and self-employed workers, i.e. all kinds of marginalized economy sectors in Africa. Their combination has been defined as the informal economy. This definition was later borrowed by the International Labour Organization, and many people who study the labor market, continue using it until now despite the fact that it is, firstly, much outdated, and secondly, in my opinion, rather poor.

Later, another concept of the informal economy arose and it had been reinforced: it was defined as a part of economic sectors that do not fall into the tax and statistical accounting. In the case of tax accounting, market participants often quite intentionally concealed their activities from being accounted for obvious reasons (why pay taxes if you do not have to pay?). And in the second case, nothing is hidden; everything is open and even exists legitimately but just is not covered by statistics.

Why do I not like the first definition by Hart? This is because these very small businesses and independent workers exist on both sides of the boundary of legality and accounting. Some of them are registered, and some are not, some pay taxes, and the rest pays nothing. What is more relevant to this research is the part of the informal economy that is hidden and avoids all sorts of accounting. Just to repeat, there are two aspects: the first one is simply absence of statistical records, and the second is not complying with the law. When talking about the law, everything is also not so simple. In particular, it is incorrect to assert that the informal economy is completely illegal. In fact, everything is more complicated, it consists of multiple different segments.

There is a segment of the informal economy, which is fully illegal. In this case, the very activity to produce a particular product or service is illegal. For example, this applies to drugs or prostitution.

At the same time, there is another segment of illegal activities that result in making products that are not prohibited and are openly sold on the market. For example, some kind of a sewing workshop placed in a basement, where clothes are sewn. Several sewing machines are standing there and some migrants work there and even receive their due wages. Of course, neither the company nor the people, who work there, are registered; taxes are not paid, production output is never accounted for. But these garments can be sold legally in stores. That is, these are not banned products. However, the very activity for their production is illegal.

However, both of those segments of the informal economy in all their manifestations seem less significant than the other one encompassing shadow activities of entirely legitimate enterprises. The most striking example of such activities are the manufacturing processes taking place in the third, extra work shift at ordinary plants. There are, for instance, distilleries that produce some of its products in the *white* area (account product outputs, pay excise taxes) but some of the products are produced behind the conventional conditions. At the same time, produced vodka appears to be absolutely the same as its legal counterpart but it is just released without paying excise from alcohol

raw materials illegally produced somewhere in North Caucasus. The scale of production of these products is enormous: it is a ten's of percent of the total alcohol market in Russia, or about every third bottle of vodka. It is obvious that when carrying out such activities manufacturers dramatically reduce their costs. A lot of taxes are not paid, including excise taxes, which are now increasing in Russia every year, and production facilities continue to produce new products. Moreover, this vodka can be supplied to retail outlets operating without a license, or even to regular shops, at prices reduced to nearly 30% compared to the prices of legally manufactured products, and those willing to save money actively buy such products.

As another example from the same field, are the activities related to import transactions with false declarations of goods imported from overseas. In the 1990s, the existing conditions maximally facilitated such manipulations. For instance, when importing 1000 computers, only 100 could be indicated in a customs declaration. Production volumes were undercounted by several times the actual amount. In addition, the cost of production was largely understated too. Computers, for example, could be imported under the guise of frozen vegetables. This gave opportunities to save on customs duties and VAT that ultimately gave tremendous advantages to unfair market participants. So, regarding the volumes, the bulk of the informal economy products are the outputs of the shadow activities of legally registered companies. Simply, the businesses have been built in such a way that they combine legal and shadow activities. All this lies at the boundary with the law. This was a very complex and interesting game, and in the 1990s, virtually everyone was involved in this kind of game. The only exceptions were foreign companies that had recently appeared in the Russian market. They did not do this; in any case if they did they were never caught.

However, since then the situation has changed. Firstly, a part of the business related to import operations, was removed completely from the shadow economy, and secondly, the customs officers began working much better. Back in the early 2000s, when the first studies on this topic were conducted, all respondents asserted that customs officers were totally corrupt. But five years later, during the second survey, the results were quite different. All were satisfied with the work of customs officers and cooperation with them as was evident from the statistics. Every year customs dues to the budget were increased by about 40%. In addition, the number of wrongly declared or counterfeit products detained at the border, or simply smuggling, was growing all the time. Nevertheless, flows of gray imports coupled with tax evasion are still happening; they have not stopped, the Chinese economy is still running. However the geography of these flows has changed. A customs union with Belarus and Kazakhstan has been created, a single economic space arose. And now, a bulk of imports, primarily illegal, comes from China to Russia via Kazakhstan. Official statistics do not record it. The Head of the Eurasian Economic Commission, Viktor Khristenko in an interview said that, unfortunately, after the Customs Union had been established, the volume of trade between its countries, contrary to expectations, was down. However, this statement does not, certainly, reflect the reality. On the contrary, it has probably grown. Just now, a considerable part of this trade is placed in the shadow economy. This is confirmed by the numerous feedbacks from entrepreneurs and traders. They maintain, for example, that the entire Orenburg Region is filled up with Chinese goods, and it is not possible to manage with this flow, because the border is actually transparent. In the near future, all these issues will not vanish, and the relevance of this topic will, unfortunately, only increase.

Finally, another important segment of the informal economy is households. Growing potatoes, producing home-distilled vodka, and consuming it all with the family are permitted. No questions from the point of view of the law will arise, and no taxes are necessary to be paid in such cases. However, as soon as these products are becoming subject to sales, it is necessary that taxes should be paid. Much of this informal economy is not taken into account as domestic production, simply because it is very difficult to do so. It may, certainly be counted in some way but generally it remains outside of the official statistics.

One should also realize that households account for a very significant volume of production, for instance, in such sectors as agricultural products. As far back as in the Soviet period, private farms accounted for a quarter of all agricultural production in the country. And it could be observed during a fight with private property and private means of production.

It is as well worth mentioning other subjects, which are also of some interest. These are interfamily transfers and product exchanges between families, older generation's assistance to the young and vice versa, etc. All of this is, certainly, legal. But informal payments in medicine are a boundary, or an intermediate, form of activity in the informal economy. It is interesting that it may take the form of gratitude, and may, in certain circumstances, be treated as everyday corruption. In the latter case it occurs when, for example, a bribe is given to the doctor to make a surgery or to someone in order to be admitted to some institution. If a payment had been made post factum not through the cashier it can be treated as a form of gratitude. That is, when a service had been supplied it is assumed that some form of gratitude should be demonstrated, just because this is a tradition. There are no obligations for payments but this is a traditional behaviour. Surely, this informal or shadow payment is considered nowhere. So, this is an illegal income on which no taxes are paid. However, if it is not payment but some material gift, such a form of gratitude can hardly be considered illegal. This, so-called, gray zone between legal and illegal is very broad. Generally in the informal economy, there is very little that is pure white, but as well there is little that is really black; it very much resides in the gray zone. This activity is, certainly, illegal but at the same time is justified and is kind of legitimate, that is accepted by people as useful and legal.

The shadow economy can be divided into two parts, namely visible and invisible. The invisible part is the one that external researchers cannot observe directly. This is illegal activity of legal enterprises, which cannot be seen because it is hidden. While being present at a tailoring shop, it is not possible to reliably determine what shift is working at the moment: a legal or illegal shift. The so-called basement economy or economy behind a fence is also hidden. Moreover, this activity is hidden not only from the police but also from the eyes of ordinary people, what can be treated as kind of specifics. The visible part of a shadow economy is the retail markets.

However, it is necessary to make a clarification regarding the wholesale markets, vegetable depots, etc. All these are enclosed urban enclaves. After notorious events on the vegetable depot in Biryulyovo it was eventually discovered what was actually happening there. The vegetable trade was not the only business at this depot. The Biruliovsky depot occupies a huge area of about 100 thousand square meters, and all that was related directly to vegetables occupied only a tenth of that space.

The visible or partially visible part of the shadow economy in the city is formed as enclaves. That is, it is not dispersed but concentrated, and this can be clearly seen. This is largely due to the fact that the shadow economy is a product of the so-called ethnic enclaves. That is, these segments of the shadow economy are formed and controlled by ethnic groups, which constantly attract their relatives to themselves. Russia is in this way quite unique. Ethnic entrepreneurship enclaves are present in all major cities of the world. For example, at the beginning of the twentieth century in London, enclaves existed inhabited by the Jewish community, which are now inhabited by the Indians, Pakistanis and others. And they all differ from each other; everywhere has its own individual nature. Pakistanis are known in the way that they have a very dense network community. Capital can circulate there through informal networks not because of mere considerations of tax evasion but because this is a business practice in that community. That is, borrowing primarily occurs from friends and relatives. Partly, this ethnic business is somehow inscribed in the legal framework, and partly it is not. That is, tax and registration evasions usually take place. However, the folk are hard-working; they support each other, what allows them be surprisingly competitive. In German cities ethnic business is represented mainly by Turks and Serbs, in Amsterdam by immigrants from Surinam, etc. Such a distribution can be observed in almost any major city including Moscow. For example, the flower and vegetable business is controlled mainly by Azerbaijanis.

As for the retail markets, these are also enclaves, which are relatively closed. However, they seem to be friendly in a sense that they are turned with a face to the people and work on the needs of the mass and low-income consumers. At the same time, fakes and imitations pass through these markets as well as gray and black import, and many more goods. In addition to the business functions, they fulfill a social function; they provide consumers with cheap goods. But these enclaves are actually very poorly inscribed in the urban environment, the city's landscape and culture. Moreover, local people perceive them as alien, if not a hostile part of the habitat. In this sense Russian cities are very different from others. An anthropologist at the University of Cambridge conducted recently a study of two cities;

Russian Blagoveshchensk and Chinese Heihe. They are located at a distance of a couple of hundred meters from each other, on opposite banks of the Amur River, and both rely largely on cross-border trade. However, they largely differ. In the Chinese city, retail and basement market economy are naturally blended into the urban environment. You can stumble across a person who is sitting on a doorstep and is sewing Wrangler jeans. He is not hiding and, furthermore, he lives next to this basement. And other people then sell these jeans in the market. The market itself is also an integral part of the urban environment; it is literally a seamless extension.

In the Russian city everything is completely different. In Russia, habitats of local people and markets are clearly separated. Moreover, they confront each other. Residents make use of the markets; they buy goods there because of the low prices. There is an opinion that markets are important because goods in shops are more expensive. Nevertheless, when people are asked about their opinion about markets, it appears that their attitude to them is at least contradictory.

What is interesting is that this attitude is embodied in the urban policy of a Moscow city. Everyone knows that city mayor Sergei Sobyanin ordered to dismantle stalls in the city center, and close the Cherkizovsky market, etc. However, anybody hardly remembers that similar steps were made in the early 2000s by the former mayor Luzhkov. Then, markets such as Dinamo, Luzhniki, and some others were also closed. Over five years, the number of markets in the capital city decreased by two to three times. It should be noted that all this was done under orders but not as a result of market competition forces. And most importantly that, when taking this decision, the Moscow authorities appealed to the well-known argument that markets are a hotbed of all sorts of outrages and are the marginal part of the urban environment. In other words, they strongly made it clear that the markets are actually alien elements to urban inhabitants.

Incidentally, a similar attitude to markets existed in Soviet times. Although agricultural markets existed quite legally, nobody liked them. The opinion was cultivated that only speculators work there, who make profits from ordinary people. At the same time, agricultural markets accounted for only 3% of the total fruit and vegetable trade in the country. Currently this share accounts for about 10%, although in the late 1990s it was at 25%. Since then every year owing to the policy of the authorities, the share of markets has reduced by 1%. Then the crisis of 2008-2009 happened, and the program stopped by those being afraid of social tension growth. Nevertheless, it is clear that in one form or another, this program will be continued and all this unorganized trade in the end will become more civilized. And this is entirely justified, at least because the climate in Russia is unsuitable for outdoor trading. It may be recalled that most of the street trade was safely exterminated in the late 1990s and it caused no tension. At the time, it was impossible to observe senior women selling cigarettes or chocolates on the stairs at the entrances to the subway.

Meanwhile, street trade performs specific cultural and entertainment functions in various forms (tents, stalls, etc.). If it is removed the place that is now occupied will become empty. That is, degradation of urban environment will occur. At the same time, a part of the street trade can be built in the way so that it naturally fits into the urban environment as it happens, for example, in European cities, where a market square is located in the city center. At those places, organized markets permanently work, and continuously fairs are also held there. All this looks like a public city holiday and appears to be a means of attracting tourists.

Municipal government corruption and its impact on the urban environment should also be mentioned. Obviously, this is a part of the shadow economy. For example, provided that unified urban development plans do not exist, fill in developments become possible. This affects adversely the transport, engineering and social infrastructure, as the rules and regulations are not followed. Such activities are peculiar to big business operations, when one can receive any permission for a bribe. As to the informal economy of urban markets, petty corruption flourishes there. Directors of managing companies in the markets pay someone the money that is in turn spread to the high and low levels of the hierarchy. Market activity was monitored earlier by trade inspection, then by the consumer supervision, and now by the police. They know and see everything (or almost everything). This activity relies on ordinary human arrangements that are convenient to everyone. Instead of being paid as taxes, money is transferred to different levels including low ones, so that it is possible to continue

functioning in customary conditions. It suits all involved parties since they are able to live comfortably in such circumstances. We are used to it and it is comfortable for us to live in such conditions. Although this might be an unpopular statement, it is hard to do anything about it. And this, of course, preserves the situation in not the best form, preventing the development of normal civilized market relations.

Chapter 11: Formal and informal economy: History and relationships paradoxes

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The role of the informal economy is ambiguous: On the one hand, it is detrimental to the formal economy, and on the other it secures it. Its accounting, when estimating the sizes of the economies and adopting regulatory solutions, significantly alters the conventional view of the world. In the broadest definition of the informal economy, it is regarded as a zone of dominance of informal institutions. Formal and informal rules can work in unison, and may be in conflict. In Russia as a country pursuing modernization, a traditional attitude to the law is as to something standing beyond *good*. Hence, tradition comes to negotiate with the authorities *humanly* while breaking away from the formalities. Many important spheres in Russian economy and policy are inconceivable without informal, shadow turnovers and relationships.

Strictly speaking, Keith Hart, who is considered to be the founder of the term informal economy, was not the first who put forward the idea that there is another economy, different from Western principles of economic organization. Yet in 1963, Clifford Geertz, who studied business in Indonesia and later in Morocco, introduced the concept of the *bazaar-type* economy as opposed to the term *firm-type* economy. And yet before that, great anthropologists, from Marcel Mauss to Karl Polanyi, described the multiplicity of principles of economic organization and social integration in different societies. But these views were not accepted by economists. Hart was able to formulate his idea not in the tradition of social anthropology but in the language of economists, and made it the subject of a broad discussion. Significantly, Hart was journalistically bright and did not simply describe the informal economy but made a fundamental assessment and *justified* the informal economy. Over time, the debates have taken a practical nature focusing around the options of assistance for developing countries.

The first classic works on the informal economy were written in developing countries. But then, interest in the subject moved to the West: it turned out that the European and US economies were not free from the informal economy and it began to be studied, and, importantly, be accounted for. This happens because if the informal economy is not accounted for, then the view of reality becomes distorted, and thus it becomes difficult to carry out a competent economic policy. The vector of focus is usually calculated on the basis of the visible part of the iceberg but then it turns out that this entire iceberg was not moved to where it was sent. This is because it was necessary to take into account the underwater part, too. Our economy is an iceberg, and the informal economy is its underwater part.

We are accustomed to thinking of the national wealth in terms of GDP per capita. But this indicator does not reflect the complete picture. Take Afghanistan, one of the poorest countries in the world, where there is almost no industrial production. At the same time, there are huge poppy plantations there, a smoothly running structured network for processing of all kinds of drugs operates throughout the country, and there exists giant drug trafficking, involving huge capital, productive forces, and so on. And all of this is part of the informal economy. It is usually not accounted for because this is a criminal business. But what would happen if the boundaries were pushed further from what is permitted? What is a crime, and what is not, can be negotiable. For instance, in the Netherlands and in some states in the US, soft drugs are allowed but this is not the case for Russia. The same applies to prostitution. If the prostitution and drugs are legalised, a huge part of the economy will be able to be whitewashed and statistics will immediately surge up.

By the way, attention by Americans to this subject arose just because of the desire to *count correctly* the dimensions of the real economy including the informal component. They built a lot of econometric models, introduced various correction factors, produced countless estimates of the informal economy but a consensus was not reached. Unambiguous judgments which estimate

algorithms are certainly true and are still absent. The point is that the informal economy is heterogeneous. And different computational algorithms with varying degrees of accuracy *catch* the quantitative parameters of the different segments of the informal economy. Not mentioning that hidden activities can be caught only by indirect evidence. As a result, all of these methods although they seem logical and reasonable, give very wide ranging estimates. With regard to the same country some calculations may indicate that the share of the informal economy is very small but others might show that it surpasses all imaginable limits. The same is true of Russia. For example, in Russia, according to official sources, about 20% of the country's economy resides in the shade informal economy but Georgy Satarov believes that the corruption market volume exceeds the revenue part of the budget by almost 2.5 times. When he was told that it cannot be so, as after exceeding certain threshold of corruption the economy will begin to collapse, he replied that the threshold value has not been passed, since the volume of the real economy in Russia is much more than that what is listed officially.

When it comes to statistics, it should be realized that the informal sector and the informal economy are not synonymous. The informal sector exists and operates in the world and in Russia quite legally. For example, the Federal State Statistics Service includes in it all the activities of entrepreneurs without formation of legal entities. All businesses that are engaged in hiring individuals are also included within the statistics: governesses, tutors, drivers, nannies, etc., as well as all those who work on patents and licenses. These may be quite legal activities, which are contracted and accompanied by the payment of corresponding taxes. As for the informal economy, it includes all activities that are not contracted, not reported by statistics and hidden from taxes.

The informal economy is an enormous entity. In order to be comprehended, it should be logically arranged in some way. It is necessary to mention that the number of discrepancies in defining the term *informal economy* breaks all records. Someone regards it as part of the shadow economy but someone on the contrary considers the informal economy as an umbrella concept covering the diversity of informal practices including shadow and criminal business. Some researchers consider under the informal economy concept, purely market activities aimed at generating income, while others embrace this concept as market and non-market economy including, for example, domestic work. These terminological inconsistencies exist both in Russian and foreign literatures.

For the author, it seems logical to use the broadest interpretation of the informal economy as a zone of dominance of informal institutions. Informal economy can be divided, relatively speaking, into what is reduced to the expression *contrary to law*, and to what is reduced to the word *outlaw*ed. In the first case, it is about the activities that the state is trying to regulate but economic agents break the order established by the state. That is, one needs to register, execute contracts, pay taxes, but people do not do it. For example, a person engaged in a private taxi business must obtain a license but he ignores this requirement, that is, builds his activities, contrary to existing regulations. This is an example of the shadow economy. The famous slogan *pay taxes and sleep well* is nothing more but a call to get out of the shadows and legitimize.

But a number of economic practices are generally prohibited by the state: production of drugs, toxic substances, porn films and so on. And if this prohibition is violated, then this is the criminal economy. A call *to pay taxes and sleep well* does not apply to criminal activity. It is being eradicated by the state whenever possible. Perhaps, a pimp would be ready to pay taxes but the state considers his business harmful to society. At the same time, it is certainly not a rigid framework but it is negotiable. One can recall numerous appeals of some of our members of parliament to legalize prostitution, which, however, have not yet found support from society.

In the second case, which concisely put is the concept of *outside the law*, the state does not try to regulate economic activity, it does not consider it necessary to collect taxes from it, and it does not impose formal requirements, these activities are free floating. The most striking example is the so-called home economy. This includes the interfamily gift exchange economy (reciprocal economy). When looking at the statistics on canned vegetable production, one can see that Russia is a midget in this market compared to France or Spain. At the same time, everyone knows that in Russia, no feast can take place without pickled cucumbers, tomatoes, and other goodies that people either make

ourselves, or buy at spontaneous markets. It is clear that for pickling cucumbers *for yourself* a license is not necessary. The volume of such conservation production is enormous, but it does not fall into the statistics.

There is also almost nothing known about the scale and turnovers of the gift exchange economy. However, it is difficult to overestimate social and economic implications of gift exchanges for the Russian society. For example, you help your classmate to prepare for an examination. And you do it for free, just because getting money in such cases is not acceptable. But if you hadn't done it, then your classmate would have hired a tutor and have paid for his services. That is, he would have presented the effective demand for the services of a legal or informal economy depending on the legal status of the tutor. Both of you realize it perfectly. Since then, he is your debtor. Although no debentures were issued, social norms imply a return gift. Unlike debts in market space, gift exchange obligations are informal: no deadlines, no response forms of the gift are specified. Moreover, the return gift does not imply the equivalence of *gift value* or *giving it back*. If in the market logic, accuracy is the *politeness of kings*, in the reciprocal economy expression of politeness is deliberate *approximateness* of a response gift. Someday, someone you have prepared for an exam will fix your computer or will help to hang wallpapers or get a job. He will do it free of charge, naturally. What settlements could be between friends? All these works have market-based equivalents. However, you did all this without the market, and with no money. At the expense of such reciprocal relationships a lot of problems are solved in society. And if the practice of gift exchanges, for whatever reasons, is blocked, it is difficult to imagine how the contours of the formal economy can change, where people will have to go to in order to find solutions for their problems.

The question of whether informal economy is a friend or an enemy to legal economy is not so simple and many people are concerned about it. Obviously, there is no single answer. The role of the informal economy is extremely ambivalent. On the one hand, it undermines and limits the legal economy, and on the other it bolsters and upholds it, and it takes on solving a number of problems posed by the formal order. Take for example, the Soviet Union. Despite the fact that there was a planned economy in the USSR with very strong power components (police, the KGB, etc.), in parallel with it the informal economy was functioning. It was limited in scale, it was not allowed to grow, but at the same time there were no attempts taken to completely destroy it. Indeed, on the one hand, there were loud proceedings against underground entrepreneurs, even death sentences were passed but on the other hand, widespread flea markets existed where the so-called black-marketers and speculators traded jeans, imported equipment, cosmetics, etc. And everyone knew where one can buy whatever one needed. Periodically raids and roundups were carried out, but in general an ordinary layman quite safely used the flea market as an alternative to shops with empty shelves. The question was whether the state had the power to suppress all of it completely. Was it understood that the informal economic activities give some flexibility and allows the overall economy to develop more effectively? In fact, the informal economy softened the inherent deficiencies of the Soviet system and reduced the inflation potential. Moreover, the informal component of the Soviet economy enabled the most proactive people to overcome the limitations of an egalitarian income distribution system. It is also important to note that the informal economy increased the tolerance to ideological propaganda, creating a visible gap between the regulatory requirements and the reality and weakening the efficacy of the official ideology. The informal economy gave the Soviet system viability: not only individuals but also businesses softened the gripe of planning through shadow manipulations.

The Post-Soviet period is an even more striking example. In the early 1990s, the good intentions of reformers began to work in the shell of informal practices, being both a cause and a consequence of the ineffectiveness of economic and political institutions in Russia. In this way, a *double accounting* certainly contributed to underpayment of the state budget but at the same time it was a source of business development through the funds *rescued* from taxation. The damage was consequently turned around in acquisition. Informal norms, growing up from the Soviet era and its traditions, inhibited transformations and at the same time making them possible, since the intentions of reformers were adapted to the capacities of the inhabitants.

It is know that any institution exists only if there is a system for forced execution of rules. Rules don't work without enforcement. Enforcement may come from the state, or from the society and it is the

nature of enforcement that divides the rules between formal and informal. Formal institutions are the ideas enshrined in the documents of how society should live under the understanding of the bureaucracy, giving the ideas of subordination to the written rules. Informal institutions are independently formed and fixed in the rules and custom models of the people's behaviour. This is a *self-constraint*, backed by history, traditions, and norms of society. A breach of the formal rules may be punished by a fine, the court verdict, etc. In the case of informal business arrangement violation, you will not become a subject of arbitration proceedings but you will be faced with gangsters, or you will just become a pariah in the business environment: you will be expelled from the social network, and will become subjected to isolation. And it is not obvious what is more detrimental to your business.

An endless competition is held between formal and informal rules and norms; their attractiveness is measured by economic agents in a complex system of coordinates. An assertion that formal institutions will never displace informal norms appears to be among the various axioms. But where does this duality come from?

There exist at least two polar opinions about how formal and informal rules arise. In Western literature, including the work of Douglass North, the idea is formed that the informal economy is the natural environment where convenient ways of interaction and resolution of economic conflicts are primarily formed. That is, it is where original schemes of economic activity are intertwined. Then, the most robust of them, largely dispersed, become codified by authorities in the form of formal institutions. In other words, informal institutions are an incubator of formal rules. And this process cannot be stopped because life goes on, some new ideas and new situations gradually arise, for which the formal regulations do not yet exist. The people resolve those problems by creating new institutions, which initially were informal. Thus, the living creativity of the masses takes place for the formation of new informal institutions. And those that are persistent become interfaced with the moral and cultural norms of the society, and precipitate in the form of formal regulations; compliance thereof begins to be a subject of observance by the state. In this case, the relationship between formal rules and informal practices bears the conflict-free nature.

There also exists an alternative judgment, according to which in countries solving the problem of overtaking modernization, formal rules were introduced as part of the antithesis of the *natural order*, as it was that order that led the country to lag behind. The task of the formal laws was to break established models embodied in manners and customs. In this sense, laws do not codify informal norms but express ideas about changes required, about public goods, as they are understood by the leaders of the political realm. And in such a case the conflict of formal and informal principles is inevitable. What, in fact, the history of Russia continuously illustrates.

Actually, the issue of how formal and informal institutions coexist in Russia has a long history. For example, in the Russian Empire an expedition was sent to various provinces to figure out how economic disputes are actually solved there. There were no illusions that not everything is ruled strictly according to the laws of the Russian Empire. But the results exceeded expectations. It turned out that practices of punishment rather weakly align with the code of laws but algorithms for solving problems in the areas with similar resource constraints were virtually identical. That is, in places where, for example, the land was very valuable one could be killed if a boundary was altered. However, in another province where the land was in abundance such a violation would be regarded as insignificant but for other offenses one could be punished quite severely. All this was interwoven with settlement traditions. Thus the informal set of rules was a correctly tuned way of resolving disputes under those or other resource constraints taking into account moral principles of the people.

It turns out that informal and formal rules can work in unison by correcting and supporting each other but they also may be in conflict. What can be called *legal nihilism* is not confined to the stupidity of laws or the difficulty of following them. With regard to this issue, the dichotomy of formal and informal is manifested, which is typical for a country that was repeatedly put in a position of readiness for a decisive breakthrough into the bright future. In this sense, the figures of Peter the Great, Stalin and Yeltsin demonstrate similarities. People defended themselves from the innovations introduced that, naturally, came into our speech: when we offer to an authority representative to negotiate *in a*

friendly way or *humanly*, it is a violation of the law. That is, the idea is present around that the law stands beyond good or human. It can be recalled that according to Xenia Kasyanova the; *Bloodless February Revolution* that was included in all textbooks, in reality it was different: the dead bodies of policemen could be put in woodpiles on Nevsky ice. However, in people's minds it remained as a really bloodless revolution, since the death of the authority representative was not considered as human victims.

Social responsibility of business is now considered as an important concept: like someone contributing to the Olympic Games or someone blowing up balloons for the City Day. The social burden is distributed according to the scale of the business. But let's look at this practice in terms of the dichotomy of formal and informal procedures. From a formal point of view, the business is required to pay taxes, to comply with the norms of the customs, labour and other legislations. Nobody is obliged to be a sponsor the City Day or patronize the animals in the zoo. Everyone realizes that there is a right to refuse, but the real possibility is absent, as otherwise some difficulties might arise in the company's operation. That is why the charity in western countries is normally administered privately but in Russia they are administered by legal entities. Of course, one can refer to the generous soul of the Russian businessmen, but this hardly explains everything.

In fact, there exists a double taxation: taxation by formal regulations and one for informal arrangements. And this happens not because of the self-interest of officials. They need to meet the challenges posed above without any resource allocations. *Seeking for opportunities* means finding a business structure that at the expense of its resources could solve a problem. Afterwards, an official will pay to that business structure with his loyal attitude. Playing with these rules gives no guarantees to a business but a hope for the respect of property rights. But a hope is something ephemeral. Businesses seek security. As a result, business invests in a *political investment*: They finance election campaigns and political parties, pay for appointments of entrusted people to high positions in executive authorities. Thus Businesses rush to the power to protect themselves from the power sources that will dictate its will to businesses. Participation in the power structures becomes a warranty of business security.

This then leads to a new problem: a business having no shadow component is excluded from the political process, due to the predominance of shadow finance in the real election campaigns. This can be confirmed by any political strategist. No political consultant will undertake to conduct an election campaign being offered only legal financial resources. Cash is also extremely necessary for such undertakings. There is a need for a certain proportion of legal and illegal money. Amounts may vary depending on the region, the level of the campaign, but a certain proportion must always be present. The business that does not have a shadow component has *politics* in the column of missed opportunities. And this is the powerful argument to ignore advertising such as; *pay taxes and sleep well*. The one sleeps comfortably, who has on saved taxes embedded someone into a power structure. As a result, a situation exists when a number of issues in the State Duma cannot be solved because the deputies came there concluding informal agreements with businesses on various matters.

Another example of informal economic relations and their regulation is an ethnic business. In Moscow, this issue is very acute. Not only researchers, but also ordinary people know in which areas the representatives of a particular ethnic business settle and what they do. Its own ethno-cultural environment and infrastructure are created: for example, shops are opened with goods where labels are not translated into Russian. It is not reasonable even to ask for certificates of those products. The similar situation can also be observed for cafes. These are not ethnic cafes on the main streets where the national character is a strategy of promotion in the public catering market but the cafes in the backs of the market buildings or station areas. At first glance those cafes are legal because there are signboards at the entrance and it all seems to be controlled by the city authorities. But what the terms of such agreements are with the authorities, in fact, no one knows. Very little is known about this part of the informal economy and what sort of informal norms exist there and what the system of their enforcement is. Perhaps, these are the most promising future areas of research in the informal economy in the urban space.

Chapter 12: Informal processes in a city: From a sociologists' viewpoint

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Sociologists have long been studying informal processes. Informal links are present inside all institutions, and in certain circumstances they can contribute to their work. However, informality can sometimes subdue a formal institution, and afterwards it will perform very different functions. In the study of informality, the perspective of the researcher is very important. This is also applicable to the issue of migration. When considering migration, it is important to realize that the ghettos are dangerous because the internal environment there becomes stronger than the outer one. Solving and preventing ghetto problems is possible with assistance of centers of cross-cultural assimilation.

Sociology adopts such definitions of the world that are specified by those, who will buy its results, a state or businesses. In turn, the state and businesses see the world in the way they are accustomed to. They consist of the institutions that also appear to be formal. That is, it is the institutions that consist of guards, ranks, salaries, regulations, etc. And these formal institutions tend to see elsewhere in the world the same elements even if the other institutions are bad or hostile. Russians see American Institutes and do not like them. Similarly, Americans dislike Russian Institutes. Nevertheless, sociology starts with the definition: "here is an institution". At the same time, sociology comprises of another root, an academic science, where a direct order or the direct sale of the product is absent. That is, the science serves to society as a whole or to the same science. This academic component enables sociology to see something that does not fit into the formal framework. Certainly, the state itself and the businesses understand that there is something else besides them and they are forced to accept this.

Thus, sociology, while taking into account all the non-formal aspects, reveals a lot of fun things when doing its studies. For example, sociologists have long ago figured out that there is no formal institution within which some informal structure would not exist. This applies to absolutely everything including the police, the church, etc. For example in any ministry, the employees are interconnected in some type of informal relationships like flirting, friendship etc. And it was established that certain kinds of informal ties within the formal institutions at any levels can contribute to their productivity and assist in achieving their formal goals. This is the so called beneficial bacteria of the informal environment. A comparison with medicine would be pertinent here; it is well known that the intestine contains germs that have to be present there in a certain quantities, because it helps us to live and digest food. The only question concerns doses. When exceeding a certain threshold, their activity starts harming the body. Spontaneous development of informal structures is a healthy process. But if they develop abnormally then conflicts arise within the formal organization, which results in paralyzing the organization or it may even change of the nature of its operation. For example, one chief quarreled with another and as a result, everything went wrong. That is, in this case, a formal structure begins to suffer, and in certain circumstances this informal conflict may lead to disastrous repercussions.

But there exists a third option when an informal structure develops to such an extent that it subjugates the formal institution, and then it starts executing very different functions than those that were prescribed to it initially. At the same time, it neglects its main functions. For example, in the course of studies in North Caucasus, Russian Federation, complete subordination of state structures to some clan, or just corrupt interests of certain informal communities was very often observed. As a result, the formal structure existed only as a cosmetic effect; in reality, it does almost nothing for their nominal functioning. That is, instead of building a road, someone builds a private summer residence, etc. Or, the police, instead of maintaining the law and keeping order, are engaged in some *backing* activities and they catch not all the criminals but only those which are pointed to by their *clients*.

Of course, such phenomena occur not only in North Caucasus, but informal structures are particularly visible in that area since congeneric and compatriotic relationships are inherent to those structures

there. This gives them greater legitimacy in people's eyes, compared to relations based on just ordinary friendships.

In the study of these informal structures or communities it is very important, from what perspective to look at them. One can study homeless people for a long period and assert that they are people without a certain place of residence. But who determines where such a place should be located? The police? A registration institution? A homeless person? A homeless person himself has his/her own opinion that a specific place for his or her living really does exist. The same situation can be observed in relation to migrants.

It costs nothing to blow up such systems of views and valuations or, on the contrary, it costs a lot. Therefore it is necessary to choose and take someone's point of view. Moreover, one needs to do it not only in a purely sincere way but according to the goals that are to be achieved when exploring a particular issue.

When looking at such informal communities as migrants, it makes sense to consider the question of utility in terms of economics. What is the role of, for instance, the Pakistani diaspora in the UK economy? Certainly, it is a rather closed group of people with their own rules, business customs, etc. If it is, being so encapsulated, just pumping money out of the British economy, they fly outside the country in some secret ways, and the UK is losing on this, then such a situation is negative. But this is unfavourable for the whole country just because money flows away from the country but not because Pakistani people have organized it inside their diaspora. In the same way it is bad, when the Coca-Cola Corporation collects large incomes in Britain, and takes them out of the country simply because they managed to find a loophole in the tax law. It is clear that this corporation operates completely formally and is just exploiting many good lawyers as its employees. From the viewpoint of the British economy there is no difference between the Pakistani folk and the Coca-Cola Company.

Attitude towards migrants can be considered not only from the point of view of the economy. British may not like, for instance, when someone is walking around in national dress. Why does a ghetto have a negative shade? There are no economic reasons for this, and not because migrants are praying in their own language. Everything is much more complicated. Let's consider mainland Europe. While immigration remains to be of a point nature and each new person entering the new society is looking for his/her destiny and is also in a forced way embedded in the social structure of the host country, becoming assimilated there, such actions do not create problems. But more often, immigration takes place when groups of people enter a certain country. People look after each other for obvious reasons. In a case of when three families came to Israel from Russia, and they live next to each other, they will talk to each other in Russian. It may be whatever country, it doesn't matter what country it is. In Russia, expats also, when gathering in a café, are speaking their own language, not Russian. This is natural. But further, a very serious thing happens: among those who came, some people adapt to local conditions more or less successfully. And those adapting less successfully, naturally gravitate towards each other. The formation of a ghetto is a moment when the environment that is around, becomes stronger than the outer environment.

A number of questions arise. What to wear? The latest apparel from Paris or what is usually worn in the surrounding block? How to raise children? What sort of fornication? What movie to watch? In the sense of everyday life, or political and spiritual sense, it is not important.

But in practice, observations of these ghettos show that they do not simply recreate a small Mauritania or small Pakistan; they create a society directed against the already existing society in the country of their residence. In fact, in the ghetto, people gather who were not happy in their external lives; they failed to adapt to the new society and come to the ghetto to seek protection. And further, all those features that distinguish them in the ghetto are being exacerbated. If people practice Islam, then it must be the Islam that strongly opposes other religions. If it is a woman, she stays in the ghetto under severe monitoring so that she dares not to do anything that she is not allowed to do according to the Islamic customs. Thus, she falls under more stringent controls than how it was in her homeland. In such an environment any modernization is impossible. Instead, inhibition and regress happen. In ghettos customs and habits are more conservative, and therefore, it is much easier, for example, for

terrorists to recruit people there, than in any remote village. It is just because people from there are ready to be violent. In the ghetto, any ordinary guy has to struggle.

The religious aspect is not decisive in this regard. The author visited a community in America where Baptists from Russia and Ukraine lived. And the leader of that community asserted that he had to struggle. The only question that arises is, against whom this struggle is happening. What he means exactly by this statement is not so important. In fact, they may not fight with anyone; they just protect themselves in such a way. Americans didn't harm them. Nevertheless, they consider the world as priori and hostile. It is obvious that such confrontational attitudes in particular, and all these closed human communities in general, cause the aversion of local Americans.

When talking about Russia, in Moscow it is exhibited to a much lesser degree. The overall xenophobia that is observed in relation to the Tajiks, in Moscow city doesn't appear to be so severe. It is terrible, but not yet transferred to violence, except in some excesses. It must be emphasized that its origin is not associated with the arrival of a large number of immigrants. Its true cause is the capitulation of Russian society before the bureaucratic power. And as a consequence, this is an enmity transfer from the strong, whom it is impossible to withstand, to the weak, which can be symbolically destroyed. This is demonstrated, in particular, by the fact that the surge in protest activity in 2012-2013 coincided with a sharp drop in xenophobia. Conversely, a fall in activity was accompanied by a sharp surge in xenophobia. It is obvious that Tajiks had no relation to this in either case.

It should be understood that economically the guest workers are certainly beneficial to Russian employers. Employers prefer to hire migrants because their labour is 30% cheaper, as they operate informally, and secondly, they have better discipline, since they are Muslims; they do not drink because they came here to earn money. It turns out that informal relations enable them to conduct business efficiently. If an entrepreneur is forced to follow all the law requirements this efficiency will drop.

As for methods for solving the problems of migrants, it is necessary to realize that the process of informal concentration of new comers is very intensive and it is extremely difficult to affect it. By the methods of a policing nature it cannot be solved, and, apparently, one has to put up with this.

On the contrary, since these groups have not turned yet into a ghetto, it is necessary to make use of it, because it creates opportunities for cultural learning and gradual assimilation. For example, in a district where there are two schools: the one, where migrants are not allowed, and the other, where they are taken. One should go to such a school and create conditions for immigrants' education. But teachers that can teach the children of migrants do not exist. There exist some courses of Russian as a foreign language but they are designed for those who came to Russia from the friendly Eastern countries. Therefore, it is necessary to create new courses, centers of Russian-Tajik cultural cooperation, etc. Not Russian and not Tajik centers but centers of collaboration. It is necessary to search for existing bridges in our cultures, and create additional ones. Kindergartens should be also common where children can draw pictures, create their own cartoons in which the characters of their stories walk together and play with each other. Such an anthropological approach, where a person is a citizen that has rights belonging to him from birth, can be effective.

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Annex 1: Report of field studies conducted at the Serpuhovsko-Timiriazevskaya Moscow metro line

During the fieldwork, 25 stations of the Serpukhovsko-Timiriazevskaya Moscow metro line were examined. For this purpose a protocol was developed, containing five sections of the informal economy scope estimations, namely: informal advertising, informal trade, begging, informal taxis and other informal economy which in the course of this study was treated quantitatively as in the case of a number of street musicians.

The estimation criteria were as follows:

- For informal advertising a subjective method was used to estimate the area covered by the informal advertising. These estimates followed the following parameters: the area of informal advertising on asphalt, in passages, at metro station exits, on poles, fences, bus stops nearby subway exits, etc. Estimations were graded from 0 to 10, where 10 is the highest rate of informal advertising presence.
- The scope of informal trade was measured by counting the number of informal outlets, which were determined on the basis of the absence of trade premises, cash registers, etc.
- The beggar rate was determined by taking into consideration only those marginalized persons who were asking for money directly at the time of the survey.
- The rate of informal taxis was estimated subjectively based on the number of parked cars, their appearance and behaviour of their owners and people around them. In this way only those informal taxis were taken into account, which were standing directly in front of the exit of the subway. The number of cars was rated as follows: 0 - complete absence, 1 - one or two cars, 2 - a few unrelated cars; 3 - several cars having some relationship to each other, or a high concentration of dispersed ones.
- The number of street musicians was counted.

All the exits at each station on the specified metro line were examined taking into account all of the associated pedestrian tunnels, as well as all of the areas in front of each exit which included a radius of about 50 meters in cases where there was an absence of a square nearby the metro station exit.

The examination took two days, May 5th and 7th, 2014. On the first day (May 5th) the stations were examined starting with Tsvetnoy Boulevard to Dmitry Donskoy Boulevard (central-southern part of the city). On another day the stations from Mendeleyev to Altufevo (Central Northern part of Moscow) were under exploration.

The total value of the informal economy scale has been calculated using the following conversion factors used to assess the significance of a particular type of the informal economy:

Table 5: Conversion factors

Informal advertising	Informal trade	Beggars	Illegal taxis	Musicians	Total
15	35	10	35	5	100

Annex 2: Richard Posner's rules

Due to the fact that transaction costs are positive, the various property rights distribution options are unequal in terms of public interest.

In accordance with the Richard Posner approach to issues of redistribution and conferring the disputed property rights, the rules according to which this process occurs are oriented towards the criteria of awareness of a rationing subject. Thus, the Posner rules themselves can be formulated as follows:

- If a rationing subject knows which of the parties would be willing to pay a greater value on a free market sale of rights, the right should be granted to the party that would have bought it with zero transaction costs.
- If a rationing subject does not know which of the parties would be willing to pay a greater value on a free market sale of rights, the right should be granted to the party for which the expected balance of benefits and costs appears to be the best.
- If a rationing subject does not know which party would be willing to pay a higher price on a free market sale, nor which of the parties has the best expected balance of costs and benefits, the right should be granted to the party which can correct errors in the initial allocation of property rights with the lowest costs incurred.

Thus, the general principle is as follows: the rights should be granted to that party which will suffer the most damage in the case of resolving the issue against it.

Annex 3: Glossary of terms

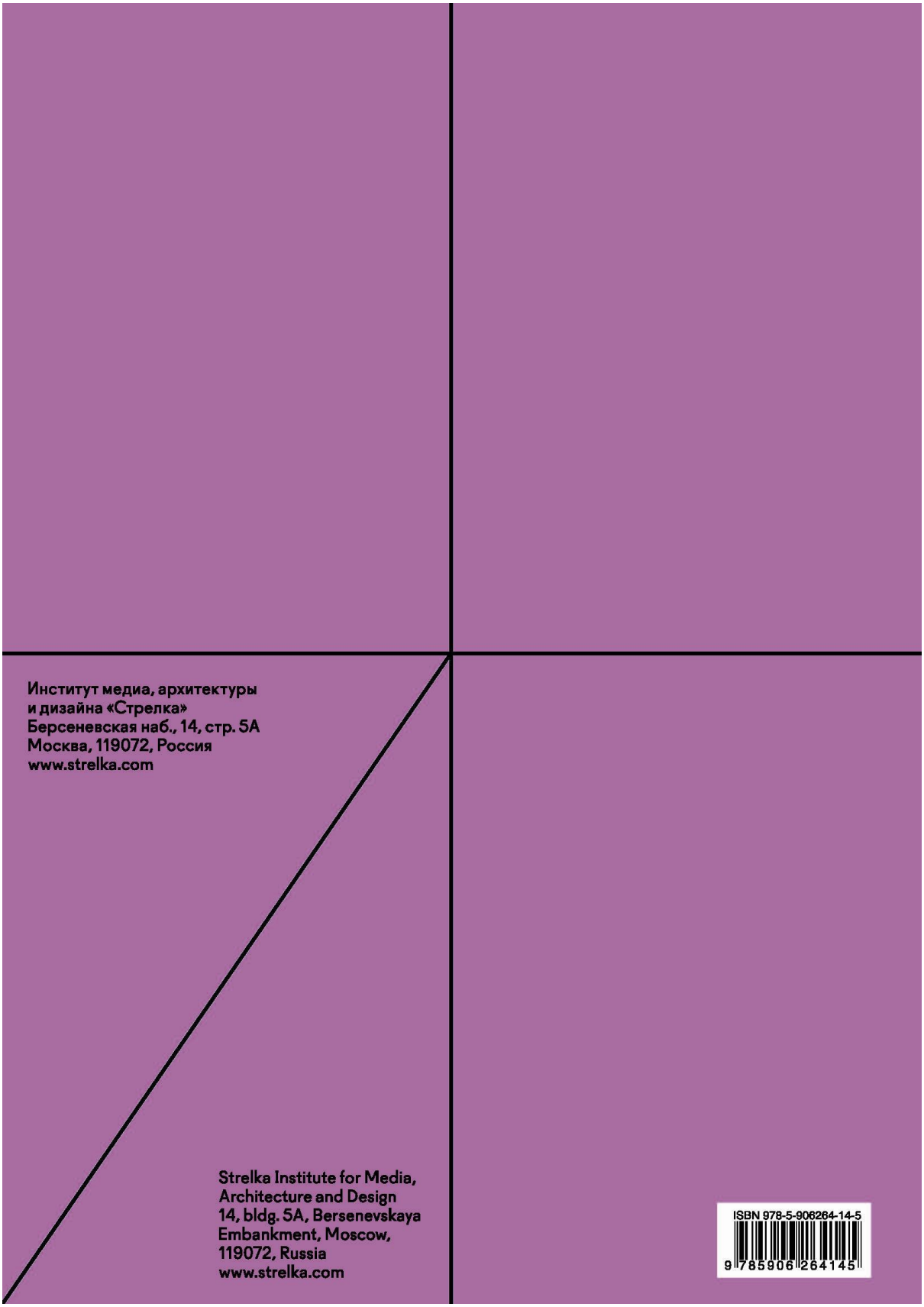
Dwelling Lease	A dwelling can be provided in possession and / or used for legal entities on the basis of a lease or another sort of contract. A legal entity is allowed to use dwellings for residence purposes only.
Landlord	A house owner.
Tenancy	In accordance with a tenancy agreement, one party (a landlord) agrees to provide the other party (a tenant) housing for accommodation purposes, for payment. A tenant can only be an individual.
Tenants	People who legally reside in dwellings possessed by other people.
Tenant	Adult citizen who hires a dwelling alone or together with his family members under a lease agreement for his or their use, for a fee.
Dwelling owner	Dwelling owner has a right to possess, use and dispose of residential premises that belong to him on the base of property rights in accordance with its purpose and limits of use established by this Code. Dwelling owner can be: 1) an individual; 2) a legal entity; 3) the state, in case of non-privatized housing.
Social tenancy	Under the contract of social tenancy, one party – owner of public or community housing, or authorized person (a landlord) – agrees to transfer a dwelling to the other party – a resident (tenant) – for the possession and use for accommodation purposes under the conditions prescribed by this Code. A social tenancy contract is concluded without establishing its validity period.

Annex 4: Legal frameworks of prostitution regulation in different countries

Country	Prostitution Legal Status	Brothel operation	Procuration
Austria **(Population: 8,210,281)**	Legalized since the 1st of January 1975. Prostitution regulating law requires mandatory registration and recurring medical check-ups. Working in sex industry is allowed for persons aged 19 and over; earnings are taxable.	Illegal	Illegal
Bahamas **(Population: 309,156)**	Illegal	Illegal	Illegal
Belgium **(Population: 10,414,336)**	Legal	Legal	Illegal
Brazil **(Population: 198,739,269)**	Legal Law regulation of adult prostitution is absent.	Illegal	Illegal
Canada **(Population: 33,487,208)**	Legal	Legal Laws banning procuration brothels keeping have been cancelled. Cancellation will take effect in December 2014.	Legal
China (incl. Taiwan) **(Population: 1,338,612,968)**	Illegal Prostitution is defined by law as a public activity humiliating womens rights (in Taiwan prostitution is legalized since June 24th, 2009	Illegal	Illegal
France **(Population: 64,057,792)**	Legal The law stipulates payment of taxes. At the same time, prostitution is banned in public places.	Illegal Law regulation of brothel keeping had existed till 1946.	Illegal Any form of prostitution facilitation is considered a crime.
Germany **(Population: 82,329,758)**	Legal Prostitution was legalized in 1927.	Legal	Legal Any form of exploitation is considered a crime.
Greece **(Population: 10,737,428)**	Legal Working in the sex industry is allowed for persons aged over 21. Regular check-ups must be taken every 2 weeks.	Legal	Legal
Iceland **(Population: 306,694)**	Limited legitimacy Sex services provision is legal; payments for sex services are illegal.	Illegal	Illegal
Iran **(Population: 66,429,284)**	Illegal Prostitution is punishable by	Illegal	Illegal

	imprisonment, flogging, stones throwing. Sex service consumers are also punishable.		
Israel **(Population: 7,233,701)**	Legal	Illegal	Illegal Existence on prostitution revenues is punishable.
The Netherlands **(Population: 16,715,999)**	Legal Prostitution is legalized since October 2000. Working in the sex industry is allowed for persons aged 18 and over. The client must be over 16. Prostitution activity must be registered; earnings are taxable.	Legal Brothels are subject to licensing and must be located in special city areas.	Legal Existence on prostitution revenues is legal provided it is not under enforcement.
Norway **(Population: 4,660,539)**	Limited legitimacy Sex services provision is legal; payments for sex services are illegal.	Illegal	Illegal
Russia **(Population: 142,500,482)**	Illegal Administrative (not criminal) punishment. The maximum penalty is a fine of 2,000 Rubles (about $50 US Dollars).	Illegal Is punishable by imprisonment.	Illegal Is punishable by criminal code.

Source: 100 Countries and Their Prostitution Policies. prostitution.procon.org/view.resource.php?resourceID=000772



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